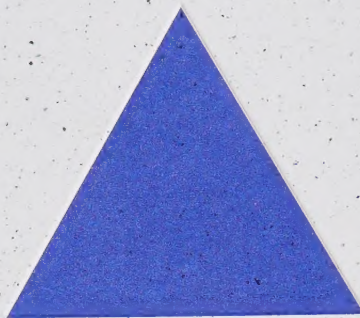


**AR09**



**Committed to Building a Sustainable Future**

***TransAlta Corporation***

**1992 Annual Report**



# **TransAlta Corporation**



## *Corporate Profile*

The triangle has long been a symbol of strength and stability amid change. As TransAlta continues to build on strengths to foster a sustainable future, we have chosen the triangle for the cover of this report.

The triangle also symbolizes an important reorganization of the company, which took effect December 31, 1992. Under the new structure, TransAlta Corporation owns the common shares of TransAlta Utilities and TransAlta Energy (formerly TransAlta Resources).

TransAlta Utilities conducts electric utility operations in Alberta. TransAlta Energy develops opportunities in non-regulated operations, largely in independent power projects outside Alberta.

The reorganization provides flexibility, allowing each business to separately develop and finance its operations. These changes support the company in its commitment to a sustainable future and its mission – to satisfy customers with competitive electric and thermal energy services in a safe, reliable and environmentally responsible manner.

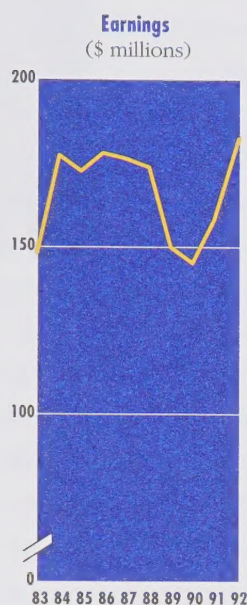
## *Shareholders' Meeting*

**Shareholders are invited to attend the Annual Meeting at 10:00 a.m. on May 14, 1993, at the Westin Hotel, 4th Avenue and 3rd Street S.W., Calgary, Alberta.**

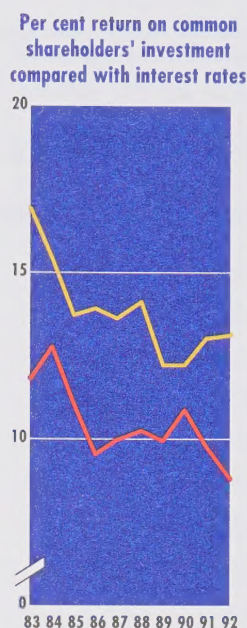
*Please call 1-800-387-3598 toll free in Canada or (403) 267-7301 in Calgary or outside Canada for shareholder information.*



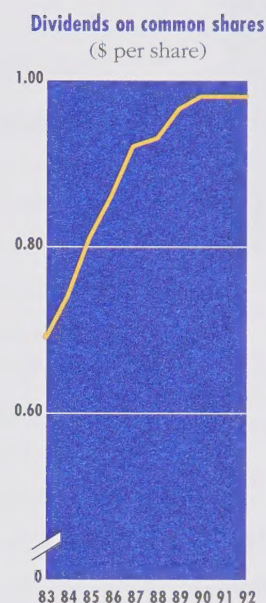
# Highlights



*Earnings increased \$0.10 per share from TransAlta Energy but were offset by a decline in utility earnings due to a lower rate of return.*



*TransAlta seeks to increase earnings to sustain the dividend and provide growth potential.*



*During 1992 TransAlta continued to provide a competitive dividend yield.*

	1992	1991	Per cent growth 1991-92
<i>(in millions except per common share data)</i>			
Electric energy sales (kilowatt hours) – regulated	25,247	24,250	4.1
Electric energy sales (kilowatt hours) – non-regulated	100	–	100.0
Electric revenue – regulated (net)	\$1,095.7	\$1,000.5	9.5
Energy revenue – non-regulated	5.9	–	100.0
Earnings before financing charges	388.9	383.8	1.3
Earnings applicable to common shares	182.5	158.3	15.3
Capitalization	3,491.2	3,310.7	5.4
Common shareholders' equity	1,446.0	1,254.3	15.3
Return on common shareholders' investment (per cent)	13.1	13.0	0.8
Capital expenditures	421.9	328.3	28.5
Average common shares outstanding	155.0	141.4	9.6
Per common share data			
Earnings	\$ 1.18	\$ 1.12	5.4
Dividends declared	0.98	0.98	–
Book value (year end)	9.12	8.71	4.7

## Letter to Shareholders

Ken McCready



President and Chief  
Executive Officer

Harry Schaefer



Chairman and Chief  
Financial Officer

*The needs of our customers and the nature of our business are changing significantly. In 1992 specific issues of competitiveness, independent power production and sustainable development were key priorities for your corporation.*

“With low generating costs, a 92 per cent “good-to-excellent” service rating from customers and a focus on new services, TransAlta will continue to be a very competitive energy supplier.”

This is the 82nd year of the company and its predecessors, and the first under a reorganized structure that financially separates the regulated and non-regulated operations. This is the first report of TransAlta Corporation, the newly created parent company. The following summarizes the key directions of the company in 1992.

### Focused on competitiveness

TransAlta has always had to be competitive. With an abundance of low-cost natural gas, Alberta is one of the world's most competitive energy markets. Most of the company's industrial and wholesale customers have energy alternatives. As a result, we have developed a low cost structure with high productivity.

TransAlta's performance is recognized globally. An independent study in Australia, which measured the performance of electric utilities around the world, found us best in four categories.

During the past six years, the portion of power rates that represents TransAlta's production costs has risen very modestly – at less than the cumulative rate of inflation. By offering competitively priced energy services, we help customers to succeed in global markets.

Within TransAlta, we are committed to continued excellence in customer service and responsiveness to changing customer needs. TransAlta is working to

provide customers with greater flexibility. New services are being offered to customers through open access to our transmission system network. We are seeking regulatory approval for appropriate rates while at the same time protecting customers who do not have service choices.

With low generating costs, a 92 per cent “good-to-excellent” service rating from customers and a focus on new services, TransAlta will continue to be a very competitive energy supplier.

We are concerned, however, about externally imposed cost burdens that unfairly limit the ability to offer customers competitive prices. The Alberta Electric Energy Marketing Act is an example of a burden that penalizes efficiency. Significant reforms are needed.

### Independent power – extending the core business

We are capitalizing on our core strengths to create opportunities in the growing business of independent power.

Independent power projects take TransAlta into new markets outside Alberta. They enable TransAlta to carry on the basic business of power generation in a new form, applying the company's 82 years of engineering and operating experience in electricity production.



In 1992 two major Ontario independent power projects were brought into operation on time and on budget. As a result of the effective structuring of business arrangements, these projects have been successful in securing the confidence of major lenders and in attracting stand-alone financing.

Currently, other independent power opportunities are being pursued in Canada and beyond North America that meet TransAlta's criteria. These opportunities could include partnering with other investors and local partners. We are confident that such projects will contribute to future earnings.

### Contributing to sustainable development

Sustainable development is a concept that calls on all of us to make progress on economic and environmental goals at the same time.

TransAlta continues to advocate a public policy framework in which market-based approaches are employed to encourage cost-effective decisions in the use of environmental resources. Market-based approaches encourage choices by producers and consumers that reflect the full cost of using environmental resources, such as land, water and air. By harnessing market forces, the cost of attaining environmental goals will be reduced – not just for TransAlta and its customers but for society as a whole.

We are building on past environmental achievements, such as success at mine reclamation. With the enthusiastic involvement of employees, cost-effective ways are being sought to improve both environmental and economic performance.

### Planning for the future

In planning for the future, the goal is to meet customers' needs and enhance shareholder value.

This will require us to:

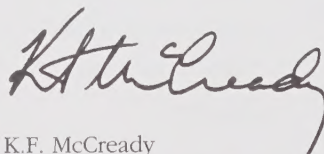
- provide extraordinary service to customers,
- pursue independent power projects,
- achieve cost-effective ways to make progress on economic and environmental goals at the same time,
- continue to adapt and innovate in a changing world, and
- continuously improve quality, cost and safety.

We acknowledge and appreciate the dedication of TransAlta people to these business plans. Through their efforts, we will ensure the corporation remains a premier supplier of electric and thermal energy, and that we continue to build a sustainable future for shareholders, employees, customers and the communities we serve.

On behalf of the Board of Directors, we are pleased to submit this report.



H.G. Schaefer  
Chairman of the Board



K.F. McCready  
President and Chief Executive Officer

February 10, 1993

### Retirements and appointments

*H.J. Sanders Pearson retired from the Board of Directors after 15 years of service.*

*Lawrence I. Bell fills the vacancy created by his retirement.*

*Mike J. Halpen, Vice-President, Human Resources, and Corporate Secretary also retired.*

*In 1992 new officers appointed were Sue Lee as Vice-President, Human Resources, and Don W. Boone as Corporate Secretary.*

## Discussion with Management



From left: **Ken McCready**, President and Chief Executive Officer, **Harry Schaefer**, Chairman and Chief Financial Officer

“ Our stock prices have remained strong, and there is the prospect of growth. ”

**What do you mean by “committed to building a sustainable future?”**

**McCready:** It means building on our strengths – low cost structure, efficiency and highly skilled, flexible employees – to ensure that we remain a successful, growing enterprise. We have focused strategically on enhancing shareholder value, creating new opportunities in independent power, building even stronger relationships with customers, and encouraging market-

based approaches that enhance economic and environmental progress.

**What is TransAlta doing to enhance shareholder value?**

**Schaefer:** We strive to provide shareholders with a higher return than alternative investments of like risk. We are very mindful of the investment objectives of our shareholders. In strategic planning and operations, we endeavor to meet these objectives. We carefully choose where we are going and strive to be prudent in our business. Our stock prices have remained strong, and there is the prospect of growth. We seek to increase earnings to sustain the dividend and provide growth potential.

**What is the benefit of the recent reorganization?**

**Schaefer:** It financially separates regulated

operations and non-regulated operations, which are made up primarily of independent power projects.

**What are independent power projects?**

**Nieboer:** They are generating plants owned and operated by independent developers rather than by regulated utilities.

**Why is independent power important?**

**Nieboer:** The electric utility business is changing in Canada and much of the world, primarily driven by more competition. It's important that TransAlta adapt to the changing industry scene and take advantage of non-regulated opportunities to expand our business and enhance shareholder value.

**McCready:** Successful independent power production requires excellence in the

construction and operation of generation plants and the negotiation of long-term contracts. These are qualities we already have as a corporation and can use to expand operations profitably.

**How does TransAlta intend to pursue independent power opportunities?**

**Nieboer:** We're investigating a range of potential projects, varying in size and including energy sources such as coal, gas and wind. Success will come from identifying appropriate projects and relying on our significant engineering and operating experience as a thermal-based electric utility. We will be careful to develop a diversity of projects to minimize risks. We will also differentiate ourselves through our ability to innovate and respond to customer needs.



**What are the prospects for your basic business in Alberta?**

**Saponja:** Very sound. We continue to be the low-cost supplier of electricity in Alberta and, therefore, are very competitive in our home market. For example, it's very difficult for independent power to compete with our existing low-cost generation. As this market changes, we are not standing still. We're continually pursuing new opportunities that maintain our competitive edge.

**Does independent power have a role in the Alberta market?**

**Saponja:** Yes. For future growth in utility customer demand, we see independent power being a potential supplier for new generation.

Our proposal to introduce rates for others, including customers, to use our transmission network will help to facilitate a competitive marketplace for generation. We seek to introduce system access rates which will also protect the interests of customers unable to pursue self-generation or purchase independent power.

**How are market forces important to the Alberta electric utility industry?**

**Leslie:** The structure of Alberta's electric utility industry has evolved naturally from market forces and customer choices. By opening the industry to market forces that provide price signals, formal regulation can be relaxed, service quality improved, and the industry's business responsibility to customers strengthened.

**What is TransAlta doing to encourage this evolution?**

**Leslie:** We seek stronger relationships with customers and other stakeholders. For example, we've adopted a consensus-building approach to setting rates and are seeking incentive-based relationships with customers. We also continue to urge for changes to the Alberta Electric Energy Marketing Act (EEMA). In a world of increasing competition, institutions like EEMA that perpetuate excessive burdens have to change. A government-appointed panel has reviewed EEMA and its report has been made public for comment and consultation.



From left: **Walter Nieboer**, Senior Vice-President, Operations, TransAlta Energy **Walter Saponja**, Senior Vice-President, Operations, TransAlta Utilities **Jim Leslie**, Senior Vice-President, Corporate Services, TransAlta Utilities

**In looking over 1992, are you satisfied with TransAlta's progress?**

**McCready:** Very satisfied. In a difficult year we made very good progress. We are a sustainable business with a bright future. We maintain a strong ethic of continuous improvement, our employees provide high levels of service and innovation, and we are recognizing changes in the marketplace – and responding successfully.

“ We are a sustainable business with a bright future. We maintain a strong ethic of continuous improvement.... ”



## The Year in Review



*The year saw the export of surplus energy, commercial operation of TransAlta's first independent power plants, contributions to sustainable development, improvements in customer billing, and increased use of public and customer participation in rate issues and project planning.*

“ Building a partnership with the customer helps us to understand each other's business and to share the substantial benefits that arise. ”

*Dan Levson, TransAlta's Major Account Representative for Shell Canada*

### Adding power to economic development

TransAlta completed an \$18.4-million transmission system primarily to supply Shell Canada's Caroline gas project – an important source of economic development for the province. In building the system, TransAlta consulted the public during route selection and land acquisition, successfully addressing the needs of landowners. The company also designed and constructed an advanced fibre optics communications link to meet Shell's requirements.

### Crossborder selling

As utilities in the United States seek to meet growing demand, increasingly they are shopping across borders for electricity. A formal agreement between TransAlta and B.C. Hydro that increases levels of co-operation and co-ordination will facilitate joint export sales to the United States.

Under a contract with POWEREX, a B.C. Hydro subsidiary, TransAlta began the export of surplus energy from Alberta's generation system. Energy is stored in B.C. Hydro's reservoirs and sold to the Bonneville Power Administration in the northwest United States. This transaction generated \$6.2 million in net revenue in 1992 and is expected to generate \$18.7 million for TransAlta over its contract period from September 1991 to August 1995.

TransAlta also signed and initiated a four-month, \$2.5-million contract involving the same parties.



### Business and Opportunities

#### Energy sales up

In 1992 the basic business of TransAlta remained strong as it continued to be the prime supplier of electric energy in Alberta, providing 67 per cent of all electricity used by utility customers in the province. Overall energy sales increased to 25,247 million kilowatt hours, up 4.1 per cent from 1991.

TransAlta's system load factor of 78 per cent was among the highest in Canada and the United States where the electric utility average for these countries was 61 per cent. Load factor, an important indicator of system productivity, is the ratio of the average load (electric energy consumed) during a designated period to the peak load in that period.





Don Bacon, Vice-President, Export,  
TransAlta Utilities

“ Through export,  
we’re making effective  
use of our assets and  
creating revenues that  
reduce our costs to  
customers. ”

## Increasing cost efficiency

In a time of challenging economic pressures, TransAlta pursued new ways to provide high quality service to customers while decreasing operating costs.

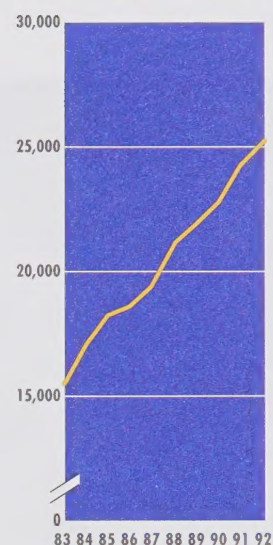
Mining was reopened at Pit 1 at the Highvale Mine and plans were announced to open Pit 6 in 1995. The pits’ relatively shallow coal seams and close proximity to the Sundance Generating Plant will help to maintain low fuel costs.

An innovative redesign proposal for new transmission facilities in the Edmonton-Fort Saskatchewan area will reduce the initial cost of the development by \$6 million, deferring further expenditures until required. The 240-kilovolt, 27-km system, scheduled to begin operation in 1995, will combine the new proposed facilities with an innovative reconfiguration of the existing system. Overall costs will be lower while maintaining high reliability to customers.

## Exchanging ideas with the Japanese

Under an agreement signed in 1992, TransAlta and the Chugoku Electric Power Company of Hiroshima, Japan, will exchange managerial and technical information. While TransAlta plans to study Chugoku’s environmental monitoring and its use of technology to achieve operating efficiencies, Chugoku hopes to learn more about the company’s Quality of Service program. Both companies are investor-owned utilities.

Energy sales to customers  
(millions of kilowatt hours)



Overall energy sales  
were up 4.1 per cent  
from 1991.

Four TransAlta

coal-fired generating

units were in the top

10 for operating factor

(i.e., productivity) in

the Canadian Electrical

Association’s recent

Generation Status

Report.



## The Year in Review



*Pierre Toutloff,  
Industrial Mechanic  
Millwright, Ottawa  
independent power project*

“We’ve seen that  
this kind of project is  
viable, and what we’ve  
learned here can be  
applied elsewhere.”

### Independent power projects completed

The company’s Mississauga and Ottawa independent power plants began commercial operation on time and on budget. The plants are owned and operated by TransAlta Energy. Through cogeneration, they produce electricity and useful thermal energy (steam, hot water and chilled water) from a single fuel source.

The two plants generate a combined total of 178 megawatts of electricity – enough to supply the energy needs of a community of approximately

145,000. The electricity is sold to Ontario Hydro under long-term contracts.

The Mississauga plant provides thermal energy to heat McDonnell Douglas’ aircraft manufacturing complex. The Ottawa plant provides thermal energy in the form of heat to the five member institutions of the Ottawa Health Sciences Centre and the National Defence Medical Centre. They were the first power plants in the world to use the new high efficiency GE LM6000 gas turbine, which is derived from a jet aircraft engine.

### Developing new business

Negotiations are continuing on other potential independent power projects. Those most advanced are for the Windsor, Bécancour and Crowsnest projects.

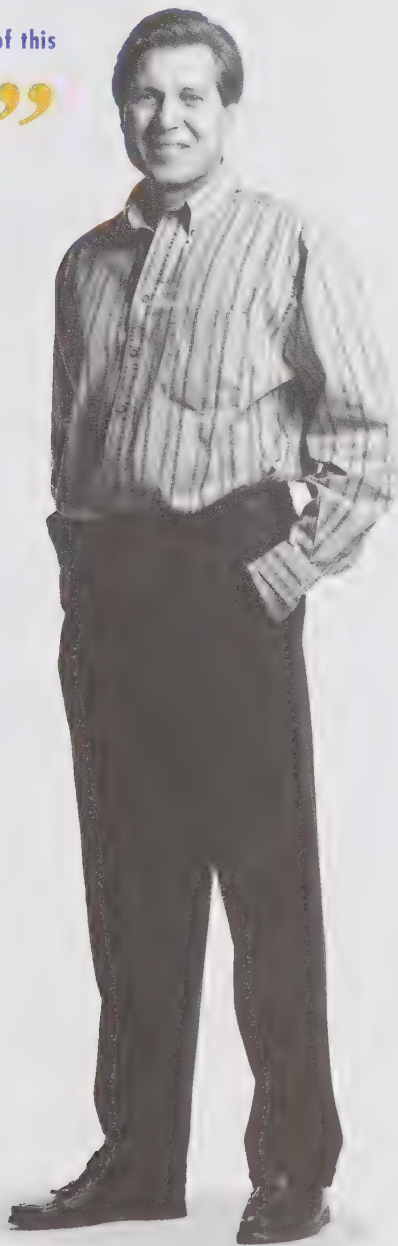
A \$140-million, 130-megawatt plant would provide steam to Chrysler Canada at its Windsor, Ontario minivan assembly plant. Construction could begin in 1993 for a proposed operation date of January 1995. Ontario Hydro, the electricity purchaser, has recently placed this project and several others on hold while its future electrical supply needs are reviewed. TransAlta remains optimistic that this review will demonstrate the benefits of the Windsor project for Ontario.

TransAlta is advancing negotiations for a \$160-million, 135-megawatt plant to be located at an industrial site at Bécancour, Québec. The project is proposed for operation in 1996 and would provide electricity for sale to Hydro-Québec.

The Crowsnest project in the Crowsnest Pass in southeast British Columbia would be 50 per cent owned in conjunction with Alberta Natural Gas



“ Through cogeneration,  
everybody wins: Shareholders  
receive a reasonable return on  
investment, customers share the  
benefits of low-cost generation,  
and TransAlta gains the skills  
necessary to build more  
plants of this  
kind. ”



*Richard Langhammer, Manager,  
Ottawa independent power project*

Company (ANG) and would generate electricity for sale to the Sacramento Municipal Utility District in California in 1996. This \$145-million, 130-megawatt project would capture waste heat from ANG's Crowsnest gas compressor station to enhance the project's overall thermal efficiency. The project requires clearance of regulatory and transmission hurdles.

### **Building ties down under**

TransAlta entered into an agreement with the Auckland Electric Power Board of New Zealand to study a potential gas-fired power plant. The study, to be completed in 1993, will determine the feasibility of building a jointly owned 200-megawatt plant in New Zealand, where the need for electricity is growing and the country's electric system is being privatized.

### **Strength through partnership**

An important element of TransAlta's plan for creating international business opportunities is to form strategic partnerships. Partnerships with local business groups and other corporations can greatly enhance the success of TransAlta's business development and ensure the integrity of its investments.

In 1992 TransAlta became a technology sponsor on coal for a group of U.S.-based independent power developers. The sponsorship entitles TransAlta to international rights for as yet an unspecified number of potential coal-fired power plants, as well as the option to participate in gas-fired and wind-powered projects. Valuable business relationships with other sponsors are emerging through this relationship.

TransAlta placed  
first for labor  
productivity, prices to  
industrial customers.  
capacity factor and  
load factor in an  
Australian govern-  
ment study ranking  
electric utilities  
around the world.



## The Year in Review



“ Programs like Enviro-Partner\$ save the customer money, reduce generation needs and promote sustainable development. ”

*Enviro-Partner\$ is helping to make facilities more energy efficient, such as this one in the Town of Rocky Mountain House. To launch the program in Rocky Mountain House, Rob Walton (left), TransAlta Customer Representative, worked with Brian Gemmel, the town's Director of Engineering and Operations.*

### Doing more with less

TransAlta's contribution to sustainable development includes Enviro-Partner\$ and Power Smart programs – energy efficiency initiatives which help customers save money and reduce impact on the environment.

Enviro-Partner\$, designed to help industrial customers and municipalities reduce energy consumption, was launched in the Town of Rocky Mountain House and at Petro-Canada's Hanlan-Robb gas plant. Under the program, TransAlta provides a variety of services, including energy audits of the customer's facilities and financing for energy efficiency improvements.

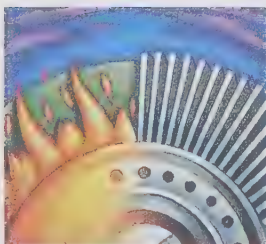
Through the Old Fridge Round Up, Lethbridge-area customers were invited to call TransAlta for free pick-up and disposal of inefficient refrigerators. The CFCs are reused and the metal recycled. This Power Smart program will be expanded in 1993.

Three other Power Smart programs were introduced: Power Saver Cords for vehicle block heaters, energy efficient Cattle Waterers, and Occupancy Sensors for lighting. Through Power Smart, TransAlta plans to reduce electric load growth by 180 megawatts by the year 2000.

### Working through education

TransAlta committed \$500,000 over five years to the University of Calgary to support a new education initiative. TransAlta will work with the university to develop interdisciplinary studies in sustainable development.

The company also helped to establish the Economic Instruments Collaborative. This group of Canadian environmentalists and industry representatives is dedicated to examining ways to apply economic instruments to address Canada's air quality issues.



**Sustainable Development**



“Through stakeholder involvement, we’re challenged to develop new and different solutions for electric needs. We’re striving to streamline and improve the regulatory process.”

## Building consensus

TransAlta is a strong advocate of a more streamlined and efficient regulatory process. In a submission to the Alberta government, TransAlta proposed a new regulatory regime that will include competition and involve customers and others in consultation on rate setting and other processes.

As part of preparations for establishing rates for 1993, TransAlta met with customers and other stakeholders. Discussions to reach consensus were successful in shortening the regulatory process and making it more cost-effective. Better understanding of electric issues and needs by both the company and customer groups was also achieved.

Consensus was essentially reached by the participants on TransAlta’s revenue requirement, with the exception of the rate of return on common equity and the treatment of certain export benefits. The Public Utilities Board will hold a hearing in 1993 to deal with these issues.

## Public input for Banff

In 1992 the Town of Banff, the Canadian Parks Service and TransAlta worked together to determine future electricity requirements in Banff National Park. Working with residents, local businesses, environmental and special interest groups and several government departments, this group looked at potential development and electrical needs for the area. Based on the public input, TransAlta expects a shorter and more effective regulatory review of a facilities application to the Energy Resources Conservation Board in 1993. The stakeholder process to determine the siting of proposed facilities will be continued.



Regulation

24,400 trees were given to students by TransAlta on Arbor Day. 2,130 trees were saved through internal recycling programs.

Randy Wilkie, Manager of Transmission Engineering Services, and Bonnie Monteith, Public Affairs Consultant, helped to organize a stakeholder participation process for Banff.

## The Year in Review



*The TransAlta team which worked to reduce the billing lag included Barb Glover, Customer Information System Advisor, and Mike Pratchler, District Power Lineman, shown here in Bassano, Alberta.*

### Improving billing services

The company enhanced billing services in a number of ways:

- Work procedures were improved and new technologies were introduced to decrease the time-lag between reading the meter and billing the customer. The decrease improves the efficiency of the company's cash flow and helps reduce costs to customers.
- A self-issue invoice system was established, enabling employees to provide on-the-spot invoices to customers for miscellaneous non-electric services. The new system reduces administrative costs while improving service to customers.

- An automated bill payment service was introduced in conjunction with the banking community.

### Opening the electric service system

TransAlta proposed new transmission services for customers and sought regulatory approval for appropriate rates. If approved by the Public Utilities Board, the rates will provide open access to the company's transmission and distribution systems as early as 1994.

The company seeks to introduce rates for customers wishing to have access to non-utility power, while protecting the interests of customers unable to pursue self-generation or to purchase electricity from independent power producers. The proposed rates were designed following extensive consultations with customer groups and other stakeholders.

### What our customers say

TransAlta's continuous efforts to improve service are based on listening to customers and responding to their needs. One way of listening is through an independent public attitude survey. Results of the 1992 survey, covering 1,050 direct customers, show:

- The number of customers who rate service "good to excellent" is 92 per cent, compared with 90 per cent in 1991.
- Reliable service is provided, according to 96 per cent of customers, compared with 92 per cent in 1991.
- 89 per cent say TransAlta is a leader in providing information that helps customers to be more energy efficient.
- 79 per cent of customers say TransAlta is working hard to ensure it produces electricity in a way which minimizes environmental impact. This compares with 75 per cent in 1991.

“Improving the meter reading process improves customer service by reducing the time-lag between meter reading and billing.”



Customers



“ At TransAlta, every day is a new learning experience for me. It’s challenging to make decisions that are both cost-effective and environmentally friendly. ”



Helen Quach, Distribution Standards Engineer

## Mutual gains

TransAlta places a strong emphasis on working with employees to create a continuously improving work environment and to enhance their skills.

An important example of this co-operative approach was the mutual gains bargaining used by TransAlta and the International Brotherhood of Electrical Workers (IBEW) in 1992 negotiations. The process, based on collaboration and joint problem-solving, resolved issues to the benefit of both parties.

The company and the IBEW also introduced a new transfer and career development program to broaden employees' career experience and provide more choices of work location.

## The learning organization

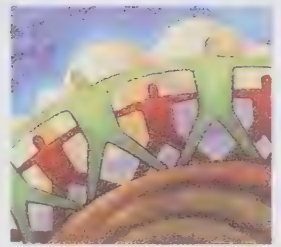
The first “Sharing Technical Excellence” conference was held for employees to enable some of the company's top innovators to share their expertise and to help others gain an understanding of technical issues. Topics included stakeholder participation, power quality, fuel cell technology and independent power.

## Seeking stronger aboriginal relationships

TransAlta is working with aboriginal peoples to seek ways of improving service, and to increase cross-cultural awareness and employment opportunities at TransAlta.

In 1992, at the invitation of the Peigan Nation, TransAlta participated in a cross-cultural camp at the reserve near Brocket, Alberta.

Negotiations with the Stoney Nation were completed for the sale of mineral rights originally granted to the company for the Ghost development. Gas royalties, formerly collected by TransAlta, will now go to the Stoney Nation.

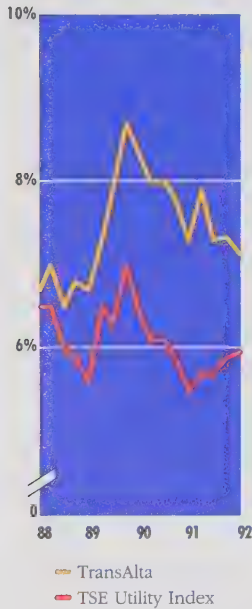


People

▲  
TransAlta had the lowest all-injury frequency rate in a recent survey by the Canadian Electrical Association, which ranked Canadian utilities with more than 500 employees.

## Management Discussion and Analysis

Dividend yield comparison



*TransAlta has provided a competitive dividend yield compared with other utilities.*

### Reorganization

On November 26, 1992, a corporate reorganization was approved by shareholders. On December 31, 1992, common shareholders of TransAlta Utilities Corporation exchanged their shares for common shares of TransAlta Corporation, which has two principal subsidiaries: TransAlta Utilities Corporation and TransAlta Energy Corporation. Existing preferred shareholders and debt holders of TransAlta Utilities continue as investors of the utility company.

The reorganization provides a clearer separation between the regulated electric utility operations in Alberta (TransAlta Utilities) and the non-regulated operations (TransAlta Energy, formerly TransAlta Resources).

### Regulation

The construction and operation of TransAlta Utilities' electric system, including allocation of service area within Alberta, are regulated by the Energy Resources Conservation Board.

The Public Utilities Board fixes rates for electric service to customers. Rates are based on the annual revenue required by TransAlta Utilities to cover all operating expenses as well as to provide the opportunity to earn a fair return on invested capital that is commensurate with rates of return being earned by enterprises of similar risks. In determining these rates, the Public Utilities Board uses a future test year and approves interim rates to customers covering the projected cost of service for that year, including inflation.

Earnings for the regulated electric utility operations are directly affected by the rates fixed by the Public Utilities Board. In addition, earnings are affected by variations in energy sales, operating deductions, financing costs and the level of return on common equity actually achieved.

### Earnings and dividends

Earnings were \$182.5 million, an increase of 15.3 per cent over \$158.3 million in 1991. Earnings per share increased 5.4 per cent to \$1.18 on an average of 155.0 million common shares outstanding. This is compared with \$1.12 in 1991, on an average of 141.4 million common shares outstanding.

Earnings increased \$0.10 per share from the improving performance of TransAlta Energy. The commencement of operations of the two Ontario independent power projects, a full year of investment income from Sherritt Gordon convertible notes, lower interest costs and discontinuation of the Low NO<sub>x</sub> SO<sub>x</sub> Burner development contributed to the improved performance. With the two cogeneration plants commencing commercial operation

## Shareholder bid approval plan

At the November 26, 1992 meeting, shareholders also approved a shareholder bid approval plan designed to ensure that common shareholders are treated equally and fairly in the event of a takeover bid.

The plan allows adequate time for shareholders to properly assess a bid and to permit alternative bids to emerge. The plan is not designed to prevent takeover bids, but will effectively prevent a bidder from acquiring more than 20 per cent of TransAlta Corporation's voting shares unless the bid is approved by a majority vote of independent shareholders.



in December 1992, TransAlta's investment in independent power is expected to improve 1993 earnings.

Earnings per share from the utility operations were \$0.04 lower because of a lower rate of return.

Dividends declared on common shares were \$0.98 per share.

## Energy sales

Electric energy sales of TransAlta Utilities totalled 25,247 million kilowatt hours, an increase of 4.1 per cent from 1991. Energy sales reflect larger spot market sales to Alberta's gas processing sector and slower growth in the wholesale and commercial sectors. Energy sales for 1993 are forecast to increase by 1.5 per cent.

## Revenues

Electric revenues from regulated operations were \$1,275.1 million, a 9.9 per cent increase over 1991. After deducting the Alberta Electric Energy Marketing Act charge and small power producers' charges, net revenues were \$1,095.7 million – a 9.5 per cent increase over \$1,000.5 million in 1991.

Spot market sales, which contributed significantly to the increase in energy sales, were offered at lower rates when surplus power was available. Because of the spot market sales, the increase in overall energy sales in kilowatt hours did not translate into a proportionate increase in revenues.

Revenues from non-regulated independent power plants were \$5.9 million for the one month they

operated in 1992. These revenues are forecast to grow to approximately \$72 million in 1993.

## Electric Energy Marketing Act

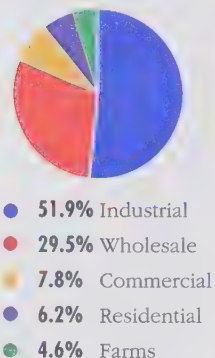
Transfer payments for the Electric Energy Marketing Act (EEMA) represented 14 per cent of power bills for TransAlta Utilities' customers. In 1992 TransAlta Utilities' customers contributed \$175.6 million, which reduced the power bills of customers of Alberta Power and Edmonton Power.

EEMA was established in 1982 by the Alberta government to reduce differences in electricity rates in the province. Through EEMA, the costs of generation and transmission of electric power for Alberta Power, Edmonton Power and TransAlta Utilities are averaged.

When EEMA was first introduced, there was no impact on rates for TransAlta's customers due to a provincial government shielding program. This shielding program was gradually phased out, ending in June 1989. Today, TransAlta's customers bear the full burden of costs for EEMA as TransAlta Utilities is the lowest-cost producer of electricity. An inequity is created for TransAlta's customers who, in some cases, are subsidizing other utilities whose customers enjoy lower rates.

In 1992, after 10 years of operation, the EEMA process was reviewed by a government-appointed panel. TransAlta Utilities wrote to its customers to seek their input into the review process. More than 72,000 retail customers wrote back, virtually all calling for change. The company's industrial and

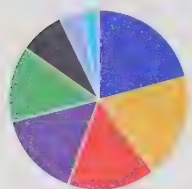
Electric energy sales



*TransAlta Utilities continued to be Alberta's largest producer of electricity, providing more than two-thirds of the electricity used by utility customers in the province. In 1992 TransAlta's cost of electricity to the province's Electric Energy Marketing Agency was 3.1 cents per kilowatt hour, 43 per cent lower than Alberta Power costs and 34 per cent lower than Edmonton Power costs.*

## Management Discussion and Analysis

Where the revenue dollar was spent  
(\$ millions)



- **21.1%** (234.2)  
Operating expense
- **18.8%** (208.2)  
Depreciation
- **15.9%** (176.3)  
Financing charges less allowance for funds used
- **15.5%** (172.0)  
Taxes on income
- **13.7%** (152.0)  
Common share dividends
- **8.1%** (89.4)  
Fuel and purchased power
- **4.1%** (46.1)  
Taxes, other than income taxes
- **2.8%** (30.5)  
Reinvestment in the corporation

*Improved earnings allowed TransAlta to maintain its dividend and reinvest capital for future growth.*

wholesale customers also recommended substantial changes to EEMA, stressing the importance of incentives for improved utility productivity and strengthened accountability of each electric utility to its own customers.

The EEMA review panel report to the Alberta government has been released to the public for comment and consultation.

### Small power producers' charges

The Alberta Small Power Research and Development Act will represent, over time, a significant factor in rate increases to TransAlta Utilities' customers. Under the program, TransAlta Utilities is required to pay 5.2 cents per kilowatt hour purchased, which is almost twice the cost of other new supply options. The charge escalates annually with inflation.

In 1992 TransAlta Utilities paid \$3.8 million to small power producers for electricity payments. These payments are forecast to increase to \$45 million per year by 1997.

The Act was introduced in 1988 to encourage research and development of alternative electricity generating options, including wind, small hydro and biomass. The Act requires Alberta electric utilities to enter into long-term power purchase contracts with eligible power producers at legislated prices. Total capacity province-wide is limited to 125 megawatts – all but 2.4 megawatts of which have been allocated to projects in TransAlta Utilities' service area.

### Competitiveness

Although TransAlta's utility operations are regulated, other energy options such as natural gas are available to many of its customers. Therefore, the company must continually strive for improvements in its operations to increase its competitiveness. In addition to controlling costs carefully, two examples of recent action are competitive generation procurement and the provision of transmission services for others.

*Competitive generation procurement* – The company announced its intention to pursue competitive generation procurement from independent power producers to meet future electric needs. By evaluating the supply costs of electricity from all potential sources, TransAlta Utilities can maintain low-cost services to customers to help them remain competitive. New sources of electricity supply may not be required before 1998.

*Provision of transmission services for others* – In the future, some customers may no longer want bundled generation, transmission and distribution services. Instead, these customers may choose to become "partial requirement customers," contracting only for those portions of the generation, transmission and distribution services they require.

TransAlta Utilities filed an application with the Public Utilities Board to establish rates that would provide open access to the company's transmission and distribution systems. Approval would enable customers to select partial services, including the ability to buy electricity from sources other than TransAlta.



The application for system access rates focuses on establishing rates for customers wishing to access non-utility generated power, while protecting the interests of customers who are unable to pursue self-generation or to purchase electricity from independent power producers. TransAlta has requested a hearing by the Public Utilities Board on its application in early 1993.

## Operating deductions

Operating deductions for TransAlta Utilities increased by 12.9 per cent to \$746.4 million due to higher input costs and business growth. Fuel and purchased power costs increased to \$91.6 million from \$78.7 million in 1991, largely due to reduced interchange sales with other Alberta utilities. Depreciation expense increased \$12.8 million to \$207.6 million, reflecting additions to plant, including unit 2 of the Sheerness Generating Plant. Income taxes rose \$34.5 million, primarily because of increases in income and Alberta income taxes.

Total operating deductions for TransAlta Utilities are forecast to be \$786 million in 1993 – an increase of 5.3 per cent. This is largely a result of higher depreciation due to additions to plant, including a full year of depreciation on unit 2 of the Sheerness Generating Plant, and increased Alberta income taxes.

Total operating deductions for TransAlta Energy were \$3.5 million in 1992. They are forecast to be \$50 million in 1993, reflecting a full year's operation of the two cogeneration plants in Ontario.

## Productivity and cost control

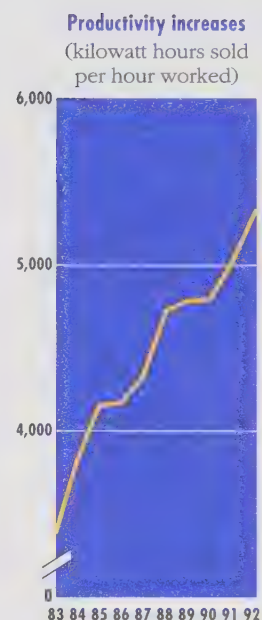
In 1992 TransAlta Utilities sold 5,334 kilowatt hours per hour worked, compared with 5,007 in 1991. Over the past decade, TransAlta Utilities' unit costs (mills per kilowatt hour) have decreased by 8 per cent in real terms compared with an increase of 2 per cent in the Canadian Electrical Association average. The association represents a large group of utility companies contributing most of Canada's electric generating capacity.

By developing partnerships with suppliers, TransAlta Utilities decreased operating costs related to inventory and information technology services. The contracting of computing services to Digital Equipment Corporation allows the company to maintain its technological capabilities with a high level of service, while reducing costs to customers.

TransAlta Utilities' Best Program (Brilliant Employee Suggestions at TransAlta), an initiative to encourage employee suggestions that produce tangible savings or benefits, resulted in a net saving of \$2.1 million in operating costs during the year.

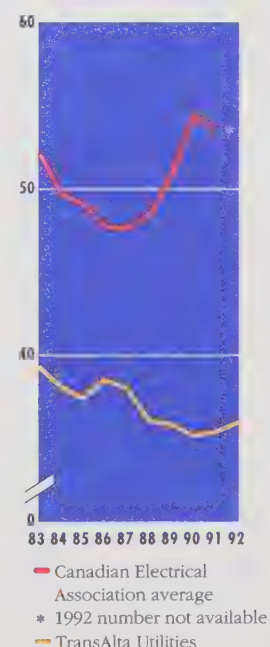
TransAlta Utilities introduced an internal energy efficiency policy to capture further savings in operating costs through cost-effective energy efficiency opportunities. Policy guidelines cover measurement and pricing of energy as well as selection, operation and maintenance of company equipment and buildings.

Effective health and safety programs have allowed TransAlta Utilities to steadily decrease the premium



*Over the past decade, TransAlta Utilities has increased the amount of energy sold per hour worked.*

**Performance compared with other electric utilities**  
(total unit costs in constant 1991\$ - mills/kilowatt hour)



## *Management Discussion and Analysis*

required by the Workers' Compensation Board for yearly coverage to \$0.6 million in 1992, from \$1.2 million in 1983.

### **Allowance for funds used during construction**

In the electric utility industry, construction programs require capital to be committed over an extended period. Allowance for funds used during construction (AFUDC) is the capitalization of the debt and equity charges on capital funds used to finance the construction of new plant. AFUDC is a non-cash source of income in the year recorded. Once an item is included in rate base, the cost of the property, including AFUDC, will be recovered in customer rates through depreciation.

AFUDC was \$30.1 million, down from \$48.0 million in 1991. This decrease was due to lower capital expenditure programs and the inclusion of unit 2 of the Sheerness Generating Plant in rate base on July 1, 1992.

### **Non-regulated investment income**

Investment income was \$7.1 million in 1992. A total of \$2.3 million was generated by TransAlta's investment in AEC Power, which supplies electric energy and steam to the Syncrude Project in northern Alberta. Investment income also included \$4.5 million from the company's investment in Sherritt Gordon convertible notes for a full year compared with three months in 1991. Investment income was \$2.9 million in 1991.

Investment income is expected to be \$7 million in 1993.

### **Financing charges**

Financing charges for TransAlta Utilities were \$205.3 million, including preferred dividends of \$59.0 million.

Interest charges were \$146.3 million, down from \$166.4 million in 1991. The reduction was primarily the result of decreased interest rates, refinancing of high-coupon debt issues and lower levels of debt outstanding.

Financing charges for TransAlta Utilities are forecast to be \$200 million in 1993, including interest charges of \$142 million.

Financing charges for TransAlta Energy were \$1.1 million in 1992. They are forecast to be approximately \$14 million in 1993 on long-term debt used to finance the operating cogeneration plants for a full year.

### **Environmental costs**

Strong commitment to the environment is in the best interests of customers, the public, the company and its shareholders. TransAlta is committed to complying with, or bettering, environmental regulations and reducing the environmental impact of its operations. The corporation's environmental policy statements are set out on the inside back cover.

Related costs are included in plant investments and operating expenses and are recovered in revenues from customers.

TransAlta Utilities collects through rates an amount to cover the future costs of reclaiming mining



operations as well as the restoration of generation, transmission and distribution facilities. Estimated costs to reclaim mining properties are recorded as operating expenses. Depreciation rates incorporate estimates of service lives and future net salvage costs. Estimated future net salvage costs include the costs to remove power plant from service and restore site, net of estimated recoveries from salvage.

### Sustainable development

One of TransAlta's priorities is to achieve sustainable development that protects the environment through cost-effective innovations in its operations.

In 1992 TransAlta Utilities:

- successfully tested a computer system to improve the environmental performance of its power plant boilers. The system, called NO<sub>x</sub> Smart, uses artificial intelligence to constantly monitor oxides of nitrogen levels in the boilers and assist operators in minimizing emissions. The costs of this system are well below those of other types of NO<sub>x</sub> control technologies.
- decreased particulate emissions by 40 per cent at the Wabamun Plant. Since 1988 TransAlta has spent \$5 million to modify existing equipment and add new equipment at the plant to reduce the quantity of particulates released into the atmosphere from the burning of coal. TransAlta is applying the knowledge gained from this project to its other thermal plants.
- introduced a new program of selective trimming and removal of trees under powerlines. The program decreases the number of trees removed and saved \$1.8 million in 1992.

TransAlta Energy began operation of two cogeneration projects in Ontario. Cogeneration produces electricity and useful thermal energy from a single fuel source. The results are greater energy efficiency and reduced effect on the environment.

### Capital expenditures

Capital spending for TransAlta Utilities was \$291.8 million, a \$5.0 million increase from the \$286.8 million spent in 1991. Capital expenditures of \$243 million are forecast for 1993 and are expected to average approximately \$200 million per year for the next few years.

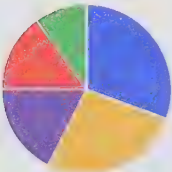
Capital spending for TransAlta Energy was \$130.1 million, an \$88.6 million increase from the \$41.5 million spent in 1991. This increase reflects the completion of the two independent power projects now in operation. Capital expenditures of \$35 million are forecast for 1993 on independent power projects currently under negotiation. The development of independent power projects is expected to be an important component of TransAlta Energy's capital expenditures in the mid-1990s.

### Liquidity

During 1992, TransAlta Utilities satisfied external financing requirements by issuing debt and common equity.

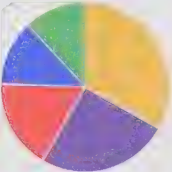
A rights offering of common shares was completed with full subscription of the 12.25 million shares offered. A total of \$134 million was raised. This issue of common equity will provide the underpinning needed by the company to help restore

Capital expenditures  
1992 recorded  
(\$ millions)



- **30.8%** (130.1)  
Cogeneration
- **26.8%** (112.8)  
Generation
- **17.4%** (73.3)  
Distribution
- **15.1%** (63.9)  
Transmission
- **9.9%** (41.8)  
General equipment

Capital expenditures  
1993 forecast  
(\$ millions)

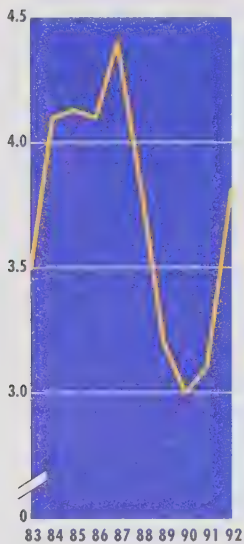


- **32.7%** (91)  
Generation
- **25.5%** (71)  
Distribution
- **17.3%** (48)  
Transmission
- **12.6%** (35)  
Cogeneration
- **11.9%** (33)  
General equipment

*TransAlta expenditures focused on development of two independent power plants, which commenced operations in December 1992. The development of independent power projects is expected to be an important component of future expenditures.*

## Management Discussion and Analysis

**Pre-tax coverage ratios**  
(interest including AFUDC)



*Improved coverage ratios help TransAlta Utilities maintain present bond ratings.*

financial coverages. Since the proceeds of the rights offering satisfied TransAlta Utilities' near-term common equity requirements, the 5 per cent discount on common shares purchased through the dividend reinvestment and share purchase plan was discontinued April 1, 1992.

TransAlta Utilities issued \$100 million of 8.70% Secured Debentures Series S and used the proceeds to repay short-term debt.

In 1992 TransAlta Energy raised \$135 million in long-term non-recourse financing for the two independent power projects in Ontario.

### Credit ratings and coverages

TransAlta Utilities continued to strengthen its balance sheet and coverage ratios through the issue of additional common equity as well as through reduced debt levels and improved earnings. Credit ratings for TransAlta Utilities' securities were:

	Canadian Bond Rating Service	Dominion Bond Rating Service
First Mortgage Bonds	A+ (High)	AA
Secured Debentures	A+ (Low)	AA
First Preferred Shares	P-1	Pfd-1

In summarizing TransAlta Utilities' bond ratings, the Dominion Bond Rating Service said in September 1992, "TransAlta has significantly strengthened its profitability and balance sheet over the past 18 months, which has resulted in much improved coverage ratios."

TransAlta Utilities' positive bond ratings allow the company to access the capital markets at very competitive rates.

### Rates

Rates charged by TransAlta Utilities for 1992 were based on a revenue requirement which included:

- a rate of return on common equity of 13.25 per cent and,
- the impact of adding Sheerness Plant unit 2 costs to rate base in mid-1992.

The Public Utilities Board confirmed interim 1991 and 1992 rates as final and approved an interim refundable rate increase of 1.2 per cent, effective January 1, 1993. Through a consensus-building process with customers, TransAlta Utilities reached an agreement on its 1993 revenue requirement, with the exception of the rate of return on common equity and the treatment of certain export benefits. Both issues will be dealt with by the Board in early 1993.

### Non-regulated operations

TransAlta Energy seeks to make investments in independent power projects that extend TransAlta's basic generation business in a new form. The company is able to apply its 82 years of engineering, operating and financing experience with generating plants when pursuing opportunities in independent power.

Construction of two independent power plants in Ottawa and Mississauga, Ontario was completed in late 1992, on time and on budget. Together the plants represent 178 megawatts of electrical generating capacity at a total cost of \$170 million. These plants are expected to have a positive impact on earnings in 1993 and beyond.



TransAlta Energy is negotiating for other potential independent power projects including a 130-megawatt project in Windsor, Ontario, a 135-megawatt project in Bécancour, Québec, and a 50 per cent interest in a 130-megawatt project to be jointly owned with Alberta Natural Gas Company in the Crowsnest Pass, British Columbia.

Ontario Hydro has recently placed the Windsor project and several others on hold while its future electrical supply needs are reviewed.

## Non-recourse financing

TransAlta Energy arranged non-recourse financing for each of the two Ontario independent power projects in 1992. An 18-year, fixed rate debt financing of \$85 million was completed for the \$102 million project in Mississauga and a 14-year fixed rate debt financing of \$50 million was completed for the \$68-million project in Ottawa.

The due diligence process that is conducted by the lenders as a part of non-recourse financing provides a rigorous test of the business arrangements of a project. Non-recourse financing also minimizes financial risk to shareholders since TransAlta Corporation's financial exposure is limited to the initial equity investment in the project.

## Alberta economy and utility load growth

The growth of TransAlta's regulated utility business will continue to reflect that of the Alberta economy. Modest growth is expected in 1993 but stronger growth is predicted for the mid-1990s.

Alberta's economic growth in 1992 was slow by historical standards. Most economists agree that the outlook for 1993 is to repeat this performance. Accordingly, energy sales are forecast to grow by 1.5 per cent. Annual growth of 2 to 3 per cent is predicted for the mid-1990s.

Historically, growth in energy sales has been driven by large industrial expansions. In the past, new plants and expansions in the forestry and chemical sectors, in particular, have provided the impetus for growth.

The modest energy sales growth expected in 1993 will result from fewer new industrial projects, low industrial product prices and a peaking of temporary energy sales. In recent years, spot market sales have contributed significantly to increased energy sales to industry.

In the mid-1990s, TransAlta Utilities anticipates continued load growth, mainly from:

- the oil and gas sectors, which currently account for one-third of the company's energy sales. The mid-term outlook for natural gas volumes is positive. As pipeline expansions are approved, new markets in the United States and Canada open for Alberta's natural gas. As these markets develop, the gas industry will require electricity to process its product.
- the chemical sector, including ethylene-based plants.
- the forestry industry, an increasingly important industrial sector for the company.

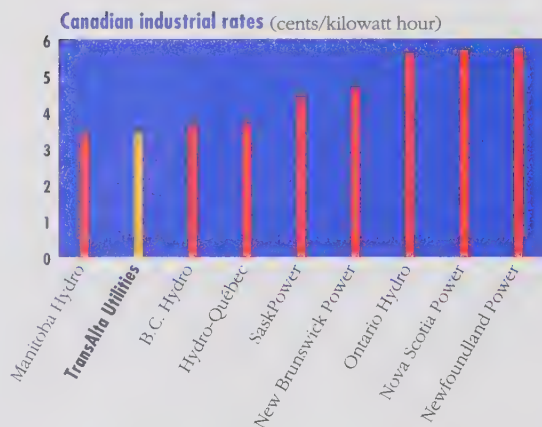
## Management Discussion and Analysis

Currently, TransAlta Utilities has no specific plans for building new generation facilities. Supply options to meet projected needs in the late 1990s will involve competitive procurement.

TransAlta remains confident that electricity will play an important role in the province's economic development. It also remains committed to keeping the cost of electricity low to attract new industries and to help Alberta remain competitive.

*TransAlta Utilities remains committed to keeping the cost of electricity low to attract new industries and to help Alberta remain competitive.*

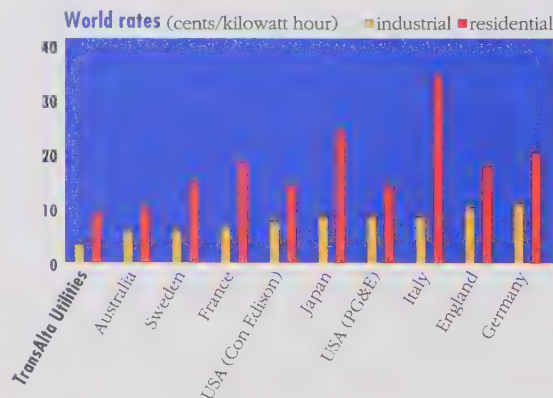
*Source: TransAlta survey of electricity rates, in January 1993. Based on 10-megawatt loads, 90 per cent load factor and 90 per cent power factor.*



*Low generation costs contribute to the company's competitiveness. A 1992 survey shows TransAlta Utilities' industrial and residential electricity rates to be the lowest of major international utilities.*

*Source: The Electricity Association, London, England.*

*Industrial based on 10-megawatt loads, 80 per cent load factor and 90 per cent power factor. Residential based on annual consumption of 7,500 kilowatt hours. Rates converted to Canadian cents as of January 2, 1992.*



### Industry trends and outlook

Major forces of change affecting TransAlta and the electric utility industry worldwide include deregulation, environmental challenges, energy efficiency, technological change and the economics of independent power.

**Independent power** – Independent power producers in North America and elsewhere are playing an increasingly important role in providing utilities and others with new generating facilities. With low gas prices, self-generation through independent power is a viable, competitive option for a growing number of large industrial customers.

Around the world independent power production is a growing, competitive market. This creates new business opportunities for TransAlta Energy, which builds, owns and operates independent power projects.

Within Alberta, TransAlta Utilities will include independent power producers as an alternative when determining future generating needs. The company recognizes the desire of these producers to enter the generation market and the challenge of finding a framework that allows the selection of the most economic and competitive electric resources to meet customers' needs. TransAlta Utilities believes that a competitive procurement system provides such a framework.

**Deregulation** – In the United States and elsewhere in the world, the traditional vertical structure of the utility industry – as sole supplier of generation,



transmission and distribution – is changing. There is pressure to open markets, not only to independent power producers to supply utility needs, but to end-use customers who wish to shop more widely for their electricity, using the utility as a transportation and back-up medium. TransAlta expects this pressure will also be felt in Alberta and elsewhere in Canada.

As set out on page 16, TransAlta Utilities has proposed new transmission rates and services in its Alberta service area to accommodate this trend.

*Environmental challenges* – Industry is faced with the challenge of sustainable development, which calls for environmental and economic improvements at the same time.

The environment is a major concern of TransAlta's customers and an integral feature of all of the corporation's activities. As a coal-burning producer of electricity, TransAlta is paying close attention to the development of carbon dioxide and global climate change initiatives.

The company believes that business can make an important contribution to the structure of new legislation and continues to participate fully in public consultations with stakeholders. It advocates a public policy framework in which market-based incentive mechanisms are employed to provide the least-cost opportunities to control emissions and improve environmental conditions. It maintains that all sectors of the economy must harness opportunities to eliminate waste, driven by price

signals that reflect the environmental impact caused by consumption and waste.

*Energy efficiency* – Enhanced energy efficiency offers the prospect of both reducing the impact of electricity production on the environment and saving customers money. TransAlta Utilities has implemented a variety of programs, including Power Smart, to encourage customers to make investments in cost-effective energy efficiency opportunities. TransAlta's programs provide information, pricing and direct financial incentives that encourage customers to invest in efficiency measures that lower their electric consumption. These initiatives will help to improve energy efficiency in Alberta without significantly increasing electricity prices.

*Technological change* – The development of a competitive independent power industry, increasing environmental concerns and the interest in encouraging energy conservation have been influenced and affected by the rate and direction of technological change within the electric utility industry.

Attention is being focused on generation technologies, especially gas turbines, which are easier to site and allow smaller economic increments of capacity additions. Such technologies will intensify competition for new generation requirements. TransAlta continues to monitor these and other developments as it adapts and contributes to change in ways that benefit customers and shareholders.

## *Management Responsibility*

In management's opinion, the accompanying financial statements have been properly prepared within reasonable limits of materiality and within the framework of generally accepted accounting principles and policies consistently applied and summarized in the consolidated financial statements. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of periodic financial statements necessarily involves the use of estimates and approximations. These have been made using careful judgment and with all information available up to February 10, 1993. Management is responsible for all information in the annual report. Financial operating data in the report are consistent, where applicable, with the financial statements.

To meet its responsibility for reliable and accurate financial statements, management has established systems of internal control which are designed to provide reasonable assurance that financial information is relevant, reliable and accurate, and that assets are safeguarded and transactions are executed in accordance with management's authorization. These systems are monitored by internal auditors who perform appropriate tests and related procedures.

The financial statements have been examined by Ernst & Young, independent Chartered Accountants. The external auditors' responsibility is to express a professional opinion on the fairness of management's financial statements. The Auditors' Report outlines the scope of their examination and their opinion.

To ensure that management fulfills its responsibility for financial reporting and internal control, the Board of Directors is assisted by an Audit Committee, whose members are non-management directors. The Audit Committee meets regularly with management, the internal auditors and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the financial statements. The Audit Committee reports its findings to the Board of Directors for consideration when approving the financial statements for issuance to the shareholders. The Audit Committee also recommends, for review by the Board of Directors and approval of shareholders, the appointment of the external auditors. The internal and external auditors have full and free access to the Audit Committee.



President and Chief Executive Officer  
February 10, 1993



Chief Financial Officer

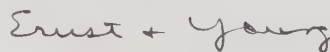
## *Auditors' Report*

To the Shareholders of TransAlta Corporation:

We have audited the consolidated statements of financial position of TransAlta Corporation as at December 31, 1992 and 1991 and the consolidated statements of earnings and reinvested earnings and cash flows for the years then ended. These financial statements are the responsibility of the corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1992 and 1991 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Calgary, Canada  
February 10, 1993



## *Consolidated Financial Statements*

### **TransAlta Corporation**

### **Consolidated Statements of Earnings and Reinvested Earnings**

<i>(in millions except earnings per share)</i>	Year ended December 31	
	1992	1991
		(Note 1)
<b>Electric revenue - regulated</b>	\$1,275.1	\$1,160.6
Less - Alberta Electric Energy Marketing Agency charge - net	175.6	159.5
- Small power producers' charges	3.8	0.6
	1,095.7	1,000.5
<b>Energy revenues - non-regulated</b>	5.9	—
	1,101.6	1,000.5
<b>Operating deductions</b>		
Operating expenses	234.2	215.8
Fuel and purchased power	89.4	76.8
Taxes, other than taxes on income	46.1	43.0
Depreciation	208.2	194.8
Taxes on income	172.0	137.2
	749.9	667.6
<b>Operating income</b>	351.7	332.9
<b>Allowance for funds used</b>		
During construction	13.6	15.8
On plant held for future use	16.5	32.2
	30.1	48.0
<b>Investment income</b>	7.1	2.9
<b>Earnings before financing charges</b>	388.9	383.8
<b>Interest charges</b>		
Long-term debt - recourse	138.0	159.6
- non-recourse	1.0	—
Short-term debt	8.4	8.8
	147.4	168.4
<b>Preferred share dividend requirements of a subsidiary</b>	59.0	57.1
<b>Financing charges</b>	206.4	225.5
<b>Net earnings applicable to common shares</b>	182.5	158.3
 Common share dividends	 152.0	 138.5
<b>Reinvested earnings</b>	30.5	19.8
Opening balance	488.0	468.2
Closing balance	\$ 518.5	\$ 488.0
 <b>Earnings per share</b>		
Average common shares outstanding	155.0	141.4
Net earnings per share	\$ 1.18	\$ 1.12

See accompanying summary of accounting policies and notes.

## *Consolidated Financial Statements*

### **TransAlta Corporation** **Consolidated Statements of Financial Position**

<i>(in millions)</i>	December 31	
	1992	1991
	(Note 1)	
<b>Assets</b>		
<b>Property</b>		
Land, buildings, plant and equipment	\$5,654.3	\$5,282.0
Less accumulated depreciation	1,794.2	1,624.8
	3,860.1	3,657.2
<b>Investments</b>	41.2	36.9
<b>Current assets</b>		
Accounts receivable	199.6	195.5
Materials and supplies at average cost	43.5	48.8
	243.1	244.3
<b>Other assets</b>	31.7	33.6
	\$4,176.1	\$3,972.0
<b>Capital and liabilities</b>		
<b>Common shareholders' equity</b>		
Common shares	\$ 910.3	\$ 749.2
Contributed surplus	17.2	17.1
Reinvested earnings	518.5	488.0
	1,446.0	1,254.3
<b>Preferred shares of a subsidiary</b>	754.4	763.0
<b>Long-term debt of subsidiaries - recourse</b>	1,159.4	1,293.4
- non-recourse	131.4	—
	3,491.2	3,310.7
<b>Current liabilities</b>		
Bank loan and short-term notes of a subsidiary	—	186.5
Accounts payable and accrued liabilities	159.1	123.9
Revenue refund due to customers	—	23.7
Dividends payable	53.5	50.1
Income taxes payable	34.8	2.0
Current portion of long-term debt	211.6	56.4
	459.0	442.6
<b>Deferred credits</b>		
Deferred income taxes	40.7	40.6
Customer and other contributions	185.2	178.1
	225.9	218.7
	\$4,176.1	\$3,972.0

On behalf of the Board:

*H G Schayn*

Director

*M Phillips*

Director

See accompanying summary of accounting policies and notes.



**TransAlta Corporation**  
**Consolidated Statements of Cash Flows**

<i>(in millions)</i>	Year ended December 31	
	1992	1991
		(Note 1)
<b>Cash from operations</b>		
Net earnings applicable to common shares	\$ 182.5	\$ 158.3
Operating items not using cash	200.6	183.6
	383.1	341.9
Change in non-cash working capital balances	43.7	(17.7)
Common share dividends	(148.4)	(137.0)
	278.4	187.2
<b>Cash applied to investments</b>		
Additions to property - regulated	291.8	286.8
Less: allowance for equity funds used during construction and used on plant held for future use	17.9	27.4
	273.9	259.4
Independent power plants	130.1	41.5
Other	4.3	1.1
	408.3	302.0
Cash deficiency before financing	\$ 129.9	\$ 114.8
<b>Financing</b>		
Long-term financing		
Common shares	\$ 161.1	\$ 78.1
Long-term financing of subsidiaries		
<b>TransAlta Utilities Corporation</b>		
Preferred shares	—	100.0
Long-term debt	171.2	6.0
Repayment of long-term debt	(116.4)	(124.1)
Redemption or purchase of preferred shares	(8.5)	(4.6)
Other	13.9	10.4
<b>TransAlta Energy Corporation</b>		
Long-term debt - recourse	—	55.6
- non-recourse	135.0	—
Repayment of long-term debt - recourse	(39.6)	(78.1)
- non-recourse	(0.3)	—
Net increase in long-term financing	316.4	43.3
Short-term financing of a subsidiary		
<b>TransAlta Utilities Corporation</b>		
Bank loan and short-term notes increase (decrease)	(186.5)	71.5
	\$ 129.9	\$ 114.8

See accompanying summary of accounting policies and notes.

# *Consolidated Financial Statements*

## **TransAlta Corporation** **Summary of accounting policies**

### **Generally accepted accounting principles**

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. These principles conform in all material respects with International Accounting Standards.

The corporation is incorporated under the laws of Canada and is engaged primarily in the production and sale of electric energy. Its activities are classified as one segment for financial reporting purposes.

### **Regulation**

TransAlta Utilities Corporation ("TransAlta Utilities"), a subsidiary of the corporation, is regulated by the Energy Resources Conservation Board pursuant to the Hydro and Electric Energy Act (Alberta); the Public Utilities Board pursuant to Part II of the Public Utilities Board Act (Alberta); and is subject to the Provincial Water Power Regulations (Alberta). These acts and regulations cover such matters as rates, construction, operations and accounting.

### **Allowance for funds used during construction and used on plant held for future use**

TransAlta Utilities capitalizes an allowance for funds used during construction at the cost of capital related to utility property under construction. As directed by the Public Utilities Board, until June 30, 1992, TransAlta Utilities capitalized an allowance for funds used on plant held for future use at a reduced return with the equity return set at a debt cost level. Benefits that accrued from export sales from these facilities were excluded in determining TransAlta Utilities' revenue requirement.

These amounts are non-cash items of income which will be charged and recovered in rates to customers over the service life of the assets, commencing with their inclusion in rate base.

### **Consolidation and investments**

The consolidated financial statements include the accounts of the corporation and all subsidiaries, of which TransAlta Utilities and its subsidiaries (TransAlta Fly Ash Corporation, Kanelk Transmission Company Limited and Farm Electric Services Ltd.), and TransAlta Energy Corporation ("TransAlta Energy") are active.

TransAlta Utilities owns and operates electrical generation, transmission and distribution facilities in the province of Alberta. TransAlta Fly Ash Corporation processes and sells fly ash gathered at TransAlta Utilities' coal-fired generating plants. Kanelk Transmission Company Limited owns facilities interconnecting TransAlta Utilities' transmission system between the Crowsnest Pass region and the Kananaskis River valley and in doing so passes through a portion of British Columbia. Farm Electric Services Ltd. is a non-profit entity which organizes, constructs, operates and maintains, at cost, electric distribution systems owned by rural electrification co-operative associations.

TransAlta Energy constructs, owns and operates independent power plants and holds investments. The investment in AEC Power Ltd. is accounted for by the equity method and the investment in Sherritt Gordon Limited convertible notes is accounted for at cost.

### **Customer contributions**

Customer contributions to TransAlta Utilities for new service connections amounting to \$182.6 million at December 31, 1992 (\$175.3 million in 1991) are credited to deferred revenue and amortized over the expected terms of the revenue deficiencies. The composite rate of amortization is approximately 3% per annum.

### **Financing costs**

Unamortized financing costs of TransAlta Utilities are included in other assets and are amortized to earnings as follows:

- Debt issues - over the lesser of the remaining original life or the estimated average life of the issue.
- Preferred share issues - over the estimated average life of the issue.

Gains or losses realized on the purchase of debt for sinking fund purposes are amortized over the remaining life of the issue. These policies are in accordance with the method of determining TransAlta Utilities' cost of capital for regulatory purposes.

Financing costs of TransAlta Energy are included in other assets and amortized on a straight-line basis over the term of the debt issue to which they relate.



## Property

Land, buildings, plant and equipment are carried at cost. TransAlta Utilities provides for depreciation on a straight-line basis using various rates as approved by the Public Utilities Board, based on depreciation studies prepared by TransAlta Utilities, and which result in an overall composite rate of depreciation of 4.34% (4.30% in 1991).

Independent power plants are carried at cost and depreciated on a unit-of-production basis over the term of the related power sales contracts.

Depreciation rates incorporate estimates of service lives and future net salvage costs. Estimated future net salvage costs include the costs to remove plant from service, net of estimated recoveries. Estimated costs to reclaim mining properties are recorded as operating expenses primarily on a unit-of-production basis.

## Revenue recognition

Revenues are recognized on the accrual basis, which includes an estimate of the value of electricity consumed by customers and billed subsequent to year end.

## Taxes on income

For federal income tax purposes, earnings from the operating activities of TransAlta Utilities are taxed by a tax allocation method under which accounting income and taxable income are equated through the timing of deductions for income tax purposes. All income taxes are paid on a current basis and no income taxes are deferred. For 1981 and 1982, TransAlta Utilities reduced the federal income tax provision and payments by claiming deductions for income tax purposes greater than the amounts charged to earnings.

As directed by the Public Utilities Board, effective 1991 TransAlta Utilities adopted the taxes payable method of accounting for provincial income taxes, under which taxable income differs from accounting income through claiming deductions for income tax purposes greater than the amounts charged to earnings. The Alberta income taxes are included in operating deductions and no income taxes are deferred. Prior to 1991, the tax allocation method followed for federal income tax purposes was followed for

provincial income tax purposes. If this prior method had been used for 1991 and 1992, additional provincial income taxes of \$16.1 million and \$8.9 million respectively would have been recorded and included in determining customer rates.

Income taxes on earnings from construction activities of TransAlta Utilities will be recorded only when the costs of the constructed assets are depreciated.

Since there is a reasonable expectation that when income taxes become payable they will be included in rates approved by the Board and recovered from the customers of TransAlta Utilities, federal income tax reductions of \$58.8 million, provincial income tax reductions of \$25.0 million and income taxes on earnings from construction activities have not been recorded.

Prior to 1990, under the Public Utilities Income Tax Transfer Act (Canada) and enabling legislation passed by the Province of Alberta, 95% of the federal and 100% of the provincial income taxes paid by TransAlta Utilities attributable to its electric utility operations were rebated to its customers. Effective for the 1990 taxation year, rebates of federal income tax were frozen at the 1989 level for a period of five years and rebates of provincial income tax were eliminated. Effective 1993, the amount of federal tax available for rebate has been reduced by 10%.

TransAlta Energy utilizes a tax allocation method of accounting. At December 31, 1992, approximately \$77.6 million of tax losses had been incurred by TransAlta Energy for which no future benefit has been recorded. These losses expire primarily in the years 1994 to 1999.

## Translation of foreign currency

Long-term debt payable in foreign currency is translated at the year-end exchange rate. The resulting adjustment is amortized over the remaining life of the debt in accordance with the method used in determining TransAlta Utilities' cost of capital for regulatory purposes.

# Consolidated Financial Statements

## TransAlta Corporation Notes to Consolidated Financial Statements (tabular dollar amounts in millions)

### 1. Basis of financial statement presentation

On November 26, 1992, the common shareholders of TransAlta Utilities Corporation approved a reorganization arrangement whereby, effective December 31, 1992, the regulated utility operation and non-regulated independent power and investment operation of the corporation were segregated to allow greater flexibility for each operation to separately develop and finance its operations. As a result, on December 31, 1992, the common shares of TransAlta Utilities Corporation were exchanged on a one-for-one

basis for common shares of a new corporation, TransAlta Corporation. Under the reorganization, TransAlta Corporation has two principal subsidiaries: TransAlta Utilities Corporation and TransAlta Energy Corporation (formerly TransAlta Resources Corporation).

These financial statements give effect to the reorganization on December 31, 1992. The comparative amounts are those previously reported for TransAlta Utilities Corporation.

### 2. Property

	Depreciation Rates		December 31			
	1992	1991	1992	1991	1992	1991
			Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
<b>TransAlta Utilities</b>						
Hydro production	2.66%	2.66%	\$ 266.9	\$ 106.5	\$ 249.5	\$ 100.0
Thermal production including coal mines	3.24%-4.07%	3.21%-4.14%	2,199.0	642.4	1,852.7	584.3
Environmental control	3.58%	3.60%	396.7	134.0	351.1	121.1
Transmission lines, substations and distribution systems	4.10%-5.68%	4.10%-5.68%	2,057.6	775.9	1,913.3	692.9
Other	Various	Various	452.8	134.8	392.1	126.5
Plant held for future use			—	—	331.6	—
Property under construction			103.8	—	144.3	—
			5,476.8	1,793.6	5,234.6	1,624.8
<b>TransAlta Energy</b>						
Independent power plants	Unit-of-Production	—	170.4	0.5	—	—
Other	10.00%-20.00%	10.00%-20.00%	0.5	0.1	0.3	—
Property under construction or development			6.6	—	47.1	—
			177.5	0.6	47.4	—
			\$5,654.3	\$1,794.2	\$5,282.0	\$1,624.8

Plant held for future use was in respect of TransAlta Utilities' investment in unit 2 of the Sheerness generating station and certain associated transmission facilities, which were included in rate base as of July 1, 1992, as directed by the Public Utilities Board.

The allowance for funds used during construction was capitalized at a rate of 11.0% (11.2% in 1991) on utility property under construction. The allowance for funds used on plant held for future use was capitalized at a rate of 10.2% (10.4% in 1991).

### 3. Investments

	December 31	
	1992	1991
AEC Power Ltd.	\$15.6	\$15.8
Sherritt Gordon Limited	25.6	21.1
	\$41.2	\$36.9



AEC Power Ltd. owns and operates the utilities plant that supplies electric energy and steam on a cost-of-service basis to the Syncrude Project for production of synthetic crude oil from the Alberta oil sands. The investment consists of 50% of the voting common shares, which represents one-third of the outstanding shares.

In October 1991, TransAlta Energy received \$29.0 million in convertible notes of Sherritt Gordon Limited in exchange for its investment in Canada Northwest Energy Limited. The difference between the value of the consideration received and TransAlta Energy's \$20.0 million carrying cost of its previous investment is included in earnings over five years from October 1991.

#### 4. Other assets

	December 31	
	1992	1991
Unamortized financing costs - TransAlta Utilities	\$19.5	\$20.5
- TransAlta Energy	6.1	0.6
Unamortized preliminary construction costs - Keephills units 3 and 4	6.1	12.5
	\$31.7	\$33.6

Unamortized financing costs of TransAlta Utilities are amortized to earnings on the basis of remaining or average life of an issue and are recovered in rates to customers.

The unamortized Keephills units 3 and 4 costs are charged to earnings and recovered in rates to customers of TransAlta Utilities in equal annual amounts ending in 1993, in accordance with a direction of the Public Utilities Board.

#### 5. Capitalization

##### i) Common shares

###### (a) Authorized

Unlimited number of voting common shares without nominal or par value.

###### (b) Issued and outstanding

Issues of common share capital for the two years ended December 31, 1992, are summarized as follows:

	Millions of Shares	Common Share Capital
December 31, 1990	137.3	\$671.1
For cash under the corporation's Dividend Reinvestment and Share Purchase Plan	6.7	78.1
December 31, 1991	144.0	749.2
For cash under a rights offering	12.2	132.1
For cash under the corporation's Dividend Reinvestment and Share Purchase Plan	2.3	29.0
December 31, 1992	158.5	\$910.3

###### (c) Common shares reserved for future issue

Under the terms of a share option plan, the corporation is authorized to grant certain key employees options to purchase up to an aggregate of 2,000,000 common shares at prices based on the market price of the shares as determined on the date of the grant. Options may not be exercised until one year after grant and thereafter at an amount not exceeding 20% of the grant per

year on a cumulative basis until the sixth year, after which the entire grant may be exercised at any time prior to expiry. At December 31, 1992, options to purchase 1,748,000 shares (1,655,000 shares in 1991) were outstanding at prices ranging from \$11.765 to \$14.265 per share and expiring from 1996 to 2002.

## *Consolidated Financial Statements*

### ii) Preferred shares of TransAlta Utilities Corporation

#### (a) Authorized

The authorized preferred share capital of TransAlta Utilities consists of an unlimited number of First and Second Preferred Shares, all without nominal or par value.

#### (b) Issued and outstanding – first preferred shares

The first preferred shares, which are issuable in series, are cumulative and redeemable at designated dates at the option of TransAlta Utilities at their subscription price together with a premium not in excess of the annual dividend. Certain series are retractable at the option of the holder on designated dates at their subscription price plus any accrued and unpaid dividends. Certain series have annual purchase funds which are

non-cumulative but require TransAlta Utilities to make all reasonable efforts to purchase for cancellation, in the open market, preferred shares at a price not exceeding their subscription price plus any accrued and unpaid dividends and costs of purchase. Only first preferred shares were issued and outstanding at December 31, 1992 and 1991.

		December 31		
	4% to 5.40%	7% to 9%	1992	1991
Purchase fund	\$ –	\$751.4	\$751.4	\$760.0
Other	3.0	–	3.0	3.0
	\$ 3.0	\$751.4	\$754.4	\$763.0
Number of shares			26,765,700	26,969,621
Number of votes			7,269,762	7,345,511
<b>(c) Changes during the year</b>				
Issued for cash	\$ –	\$ –	\$ –	\$100.0
Cancelled through				
Purchase fund	–	(4.7)	(4.7)	(5.1)
Retraction and other	–	(3.9)	(3.9)	(0.1)
	\$ –	\$ (8.6)	\$ (8.6)	\$ 94.8
Number of shares			(203,921)	3,947,701
Number of votes			(75,749)	960,901
<b>(d) Retraction privileges</b>				
In 1992	\$ –	\$ –	\$ –	\$149.2
In 1993	–	100.0	100.0	100.0
In 1994	–	100.0	100.0	100.0
In 1995	–	194.4	194.4	194.4
In 1996	–	100.0	100.0	100.0
No retraction	3.0	257.0	260.0	119.4
	\$ 3.0	\$751.4	\$754.4	\$763.0

An annual purchase fund may be required for up to \$12.2 million stated capital in each of 1993, 1994 and 1995, and \$9.5 million in each of 1996 and 1997. Any such requirements could reduce the retraction privileges.

The excess of the subscription price of the preferred shares cancelled over their purchase cost amounted to \$0.1 million in 1992 (\$0.6 million in 1991) and is included in contributed surplus.



### iii) Long-term debt of subsidiaries

	December 31	
	1992	1991
TransAlta Utilities	\$ 1,148.0	\$ 1,242.4
TransAlta Energy - recourse	11.4	51.0
	1,159.4	1,293.4
TransAlta Energy - non-recourse	131.4	—
	\$ 1,290.8	\$ 1,293.4

#### TransAlta Utilities

	December 31				
	6 3/8% to 9 3/4%	10% to 13%	17 5/8%	1992	1991
First mortgage bonds	\$ —	\$ —	\$ —	\$ —	\$ 55.0
Foreign debt	31.8	—	—	31.8	31.8
Debentures	220.1	900.7	33.0	1,153.8	1,087.5
Notes payable	40.0	—	—	40.0	40.0
Capital leases	59.6	—	—	59.6	64.4
Other	71.1	—	—	71.1	20.1
	422.6	900.7	33.0	1,356.3	1,298.8
Current portion	19.9	185.4	3.0	208.3	56.4
	\$ 402.7	\$ 715.3	\$ 30.0	\$ 1,148.0	\$ 1,242.4

The following principal amounts and sinking fund requirements, excluding current portion, are due in:

1993	\$ —	\$ —	\$ —	\$ —	\$ 194.0
1994	15.9	17.9	3.0	36.8	66.2
1995	19.9	7.1	3.0	30.0	29.1
1996	120.1	7.1	3.0	130.2	129.0
1997	39.8	155.8	21.0	216.6	202.7
1998 to 2002	161.2	527.4	—	688.6	609.9
After 2002	45.8	—	—	45.8	11.5
	\$ 402.7	\$ 715.3	\$ 30.0	\$ 1,148.0	\$ 1,242.4

**First mortgage bonds** The first mortgage bonds are secured by a first charge on certain of TransAlta Utilities' land, buildings, plant and equipment and by a first floating charge on all other assets of TransAlta Utilities situated in the Province of Alberta. The Trust Deed provides for a sinking fund for the retirement of first mortgage bonds, payable on September 1 of each year, of 1% of the principal amount of all first mortgage bonds outstanding. All foreign debt of TransAlta Utilities is shown separately stated in equivalent Canadian dollars. This debt consists of first mortgage bonds payable in United States dollars of \$2.5 million per year over the next 10 years. TransAlta Utilities has closed the Trust Deed and will issue no additional first mortgage bonds.

**Debentures** The debentures are secured by a floating charge on the property and assets of TransAlta Utilities subject to the first specific charge and the first floating

charge securing the first mortgage bonds. The \$100.0 million Series S issue of 8.70% Secured Debentures, which was sold by way of an underwriting agreement dated December 8, 1992, for delivery January 6, 1993, has been included in long-term debt at December 31, 1992.

**Notes payable** The notes payable of TransAlta Utilities are unsecured, have no authorized limit, bear interest determined at June 30 and December 31 of each year at the greater of the five-year bank term deposit rate or the prevailing bank prime interest rate and mature December 31 in each year. These amounts are payable to rural electrification co-operative associations through their agent, Farm Electric Services Ltd., and represent a portion of funds contributed by members of these associations.

**Capital leases** TransAlta Utilities leases, with options to purchase, draglines costing \$92.2 million (\$92.2 million in 1991). The cost of this equipment is included in the

## *Consolidated Financial Statements*

property account and classified as thermal production. The related liability is included in long-term debt to reflect the effective acquisition and financing of the equipment. Accumulated amortization amounted to \$37.0 million at December 31, 1992 (\$33.2 million in 1991). The future minimum payments under the capitalized leases are \$15.6 million in 1993, \$8.0 million in each of 1994 and 1995, \$8.6 million in each of 1996 and 1997 and \$37.0 million thereafter. The imputed interest included in these future minimum rentals is \$26.2 million at December 31, 1992 (\$31.1 million in 1991).

*Other* The Alberta Small Power Research and Development Act requires TransAlta Utilities to enter into long-term power purchase contracts with eligible small power producers in its service area at legislated prices.

### **TransAlta Energy**

	December 31	
	1992	1991
Non-recourse notes payable for independent power plants	\$134.7	\$ —
Current portion	3.3	—
	131.4	—
Bank loan	11.4	51.0
	\$142.8	\$ 51.0

The notes payable are non-recourse and bear interest of 9.82% - 10.72%, with principal and interest repayable over 14 to 17.5 years. Security for the notes is limited to first fixed and floating charges and specific mortgages on the independent power plants; assignment of the related contracts and permits governing operation of the plants; and \$17.8 million in letters of credit, which will be released by January 1, 1998 upon the plants meeting certain financial performance and other conditions. In the event of a material default under a contract or permit related to a plant in service, the financial loss to TransAlta Energy is limited to its equity in the plant and its commitments under long-term

Payments under the contracts are to be included in rates charged to customers. The Act limits the required contracted capacity to a total of 125 megawatts in Alberta. All but 2.4 megawatts have been allocated to projects in TransAlta Utilities' service area. At December 31, 1992, TransAlta Utilities had entered into contracts for approximately 69 megawatts of capacity, of which 21 megawatts of capacity delivered power during 1992. The present value of future payments required for the 21 megawatts of capacity (using a discount rate of 6%) is \$58.9 million (\$6.0 million in 1991), with future estimated payments (including imputed interest of \$39.3 million) of \$4.9 million in each of 1993 and 1994, \$5.2 million in each of 1995, 1996 and 1997, and \$72.8 million thereafter. The remaining 48 megawatts of contracted capacity are forecast to commence delivery in 1993 and 1994.

gas agreements which in 1993 approximate \$17.5 million and escalate thereafter in accordance with gas transportation tolls. Required repayments are \$3.3 million in 1993, \$4.1 million in 1994, \$4.6 million in 1995, \$5.1 million in 1996, \$5.6 million in 1997 and \$112.0 million thereafter.

TransAlta Energy has available a bank loan facility of \$72.5 million (\$100.0 million in 1991) of which approximately \$36.0 million remained unutilized at December 31, 1992. Funds drawn under the facility bear interest at current lending rates and are due on demand. The amount is included in long-term debt as the bank does not intend to seek repayment during 1993.

### **6. Alberta Electric Energy Marketing Agency charge**

The Alberta Electric Energy Marketing Agency charge-net arises from the operation of the Electric Energy Marketing Act (Alberta) and is to be included in TransAlta Utilities' rates for service which are collected from its customers.

The purpose of the Electric Energy Marketing Act (Alberta) is to reduce the disparity in electric rates throughout Alberta resulting from differing power generation and transmission costs of the three major electric utilities. The Alberta Electric Energy Marketing Agency (EEMA) purchases electric energy generated by TransAlta Utilities, Alberta Power Limited and Edmonton Power at a price fixed by the Public Utilities Board for each utility. EEMA

immediately resells the electric energy to the utility from which it was purchased at the average price of all electric energy purchased.

As TransAlta Utilities is the lowest cost producer of electricity, the price fixed by the Board for electric energy for TransAlta Utilities is currently below the average price established by EEMA, which gives rise to a net charge from EEMA to the corporation. This net charge must be paid by TransAlta Utilities and recovered in the rates for service charged to its customers.

During the phase-in period of EEMA's operation, which started in 1982, the Province of Alberta provided shielding for TransAlta Utilities' customers from net charges arising



out of the averaging process. Effective June 1989, the province discontinued this shielding. The province is currently reviewing the objectives of the Electric Energy

Marketing Act and the effectiveness and fairness of the EEMA process.

## 7. Rates for service

In December 1992, interim rates in place during 1991 and 1992 were confirmed as final by the Public Utilities Board.

Also in December 1992, TransAlta filed a 1993 rate application with the Board. On December 30, 1992, the Board

established interim rates for 1993, providing a refundable interim increase of 1.2% effective January 1, 1993. A hearing is expected in April 1993.

## 8. TransAlta Energy Corporation

	Year ended December 31	
	1992	1991
Energy revenues	\$ 5.9	\$ -
Fuel and operating expenses	(2.9)	(0.4)
Depreciation	(0.6)	-
Research and development	-	(5.9)
Operating income (loss)	2.4	(6.3)
Investment income	7.1	2.9
Interest expense	(1.1)	(2.0)
Net earnings (loss)	\$ 8.4	\$ (5.4)

TransAlta Energy commenced operation of two independent power plants in December 1992 and the above table reflects one month's operating results.

## 9. Taxes on income

Taxes on income vary from the amount that would be determined by applying the combined statutory Canadian

federal and Alberta income tax rates to pre-tax earnings, as follows:

	Year ended December 31	
	1992	1991
Statutory income tax rates	44.3%	44.2%
Adjustments -		
i) Provincial timing differences for which no deferred tax is provided	(2.4)	(5.0)
ii) Equity income	(0.4)	(0.3)
iii) Allowance for equity funds used during construction and used on plant held for future use, net of applicable depreciation adjustment	(0.1)	(1.5)
iv) Coal mining allowances	(0.9)	(1.0)
v) TransAlta Energy's losses available for future years	(0.5)	1.0
vi) Large corporations tax	1.3	1.2
vii) Other	0.3	0.3
Effective income tax rate	41.6%	38.9%

## 10. Pension plan

The corporation maintains a defined benefit retirement pension plan covering substantially all employees of its subsidiaries. At December 31, 1992, the estimated market value of pension fund assets for actuarial purposes was

\$291.5 million (\$273.8 million in 1991) and exceeded the estimated present value of accrued pension obligations by \$4.0 million (\$7.6 million in 1991).

## *Ten-Year Summary of TransAlta Corporation*

<b>Financial record</b> (millions of dollars except where noted)	1992	1991
<b>Statement of earnings</b>		
Electric revenue – regulated	1,275.1	1,160.6
Alberta Electric Energy Marketing Agency (charge) recovery - net	(175.6)	(159.5)
Small power producers' charges	(3.8)	(0.6)
Energy revenue – non-regulated	5.9	–
Operating deductions	(749.9)	(667.6)
Allowance for funds used during construction	13.6	15.8
Allowance for funds used on plant held for future use	16.5	32.2
Investment income	7.1	2.9
Interest charges	(147.4)	(168.4)
Preferred share dividend requirements of subsidiaries	(59.0)	(57.1)
Earnings from continuing operations	182.5	158.3
Discontinued operations	–	–
Net earnings applicable to common shares	182.5	158.3
<b>Common shareholders' investment</b>		
Average common shareholders' investment (weighted)	1,393.4	1,214.7
Return from continuing operations on weighted average (%)	13.1	13.0
<b>Common share information (dollars per share)</b>		
Book value (year end)	9.12	8.71
Earnings from continuing operations	1.18	1.12
Net earnings	1.18	1.12
Dividends declared	0.98	0.98
<b>Coverages (times earned before income tax)</b>		
Interest	3.8	3.1
Interest and preferred dividends	2.2	2.0
<b>Assets and property</b>		
Total assets (year end)	4,176.1	3,972.0
Property account	3,860.1	3,657.2
Electric utility property in service (year end)	3,579.4	3,133.9
Additions to property	421.9	328.3
<b>Capitalization (year end)</b>		
Common shareholders' equity	1,446.0	1,254.3
TransAlta Utilities – preferred shares	754.4	763.0
– long-term debt	1,148.0	1,242.4
TransAlta Energy – long-term debt	142.8	51.0
– preferred shares	–	–
	3,491.2	3,310.7
<b>Statistical record</b>		
<b>Electric energy sales (millions of kWh)</b>		
Regulated – residential and commercial	3,530	3,474
– industrial	13,101	12,168
– cities and towns under wholesale contracts	7,455	7,426
– farms	1,161	1,182
Non-regulated – independent power	100	–
	25,347	24,250
<b>Generating capability (nominal net MW)</b>		
Regulated – hydro	800	800
– thermal	3,676	3,676
Non-regulated – independent power	178	–
	4,654	4,476
<b>Sources of primary energy (millions of kWh)</b>		
Regulated – hydro	1,502	2,022
– thermal (coal)	26,904	26,102
– net purchases and exchanges	(1,145)	(1,905)
Non-regulated – independent power	100	–
	27,361	26,219

\*Net of \$0.75 per share or 7.5% reduction resulting from capital reorganization February 1, 1988.



1990	1989	1988	1987	1986	1985	1984	1983
1,063.5	954.9	909.6	917.0	909.0	833.8	788.6	657.1
(117.5)	(43.3)	17.4	8.5	(15.9)	(21.5)	(27.6)	(18.9)
—	—	—	—	—	—	—	—
—	—	—	—	—	—	—	—
(620.3)	(588.3)	(585.3)	(582.3)	(557.6)	(500.8)	(464.9)	(402.5)
27.3	35.1	38.2	38.7	61.0	75.6	77.3	97.4
18.6	5.6	—	0.5	0.4	—	—	—
2.1	2.0	1.9	5.4	12.9	8.2	16.7	17.0
(176.4)	(163.5)	(146.2)	(130.3)	(147.7)	(136.3)	(135.6)	(135.2)
(52.0)	(52.5)	(61.7)	(80.9)	(84.0)	(86.3)	(77.1)	(66.5)
145.3	150.0	173.9	176.6	178.1	172.7	177.4	148.4
(110.0)	(13.1)	(57.6)	2.4	(124.6)	8.2	6.3	2.9
35.3	136.9	116.3	179.0	53.5	180.9	183.7	151.3
1,188.9	1,227.1	1,236.6	1,301.6	1,278.9	1,256.9	1,150.9	879.6
12.2	12.2	14.1	13.6	13.9	13.7	15.4	16.9
8.42	9.10	9.05*	9.87	9.46	9.93	9.39	8.60
1.07	1.11	1.29	1.31	1.35	1.33	1.39	1.37
0.26	1.01	0.86	1.33	0.41	1.39	1.44	1.39
0.98	0.965	0.93	0.92	0.86	0.81	0.74	0.69
3.0	3.2	3.8	4.4	4.1	4.1	4.1	3.5
2.0	2.0	2.2	2.3	2.2	2.2	2.2	2.1
3,844.2	3,892.3	3,721.6	3,685.5	3,701.9	3,733.7	3,513.8	3,291.0
3,538.7	3,451.7	3,335.6	3,286.1	3,273.5	3,187.1	3,055.2	2,858.5
3,117.9	3,058.3	3,024.8	3,005.3	2,993.4	2,560.5	2,536.0	2,212.1
280.9	293.4	229.7	169.9	233.8	253.1	304.8	490.8
1,155.8	1,230.6	1,223.7	1,334.3	1,265.7	1,298.9	1,214.7	1,084.2
668.2	673.7	678.9	758.7	689.7	741.8	707.8	621.9
1,396.2	1,220.1	1,149.4	946.2	992.3	1,054.2	1,022.7	985.2
73.5	99.3	68.1	—	—	39.7	1.9	42.9
—	—	—	124.2	160.0	160.0	120.0	70.0
3,293.7	3,223.7	3,120.1	3,163.4	3,107.7	3,294.6	3,067.1	2,804.2
3,306	3,205	3,129	2,928	2,854	2,802	2,671	2,539
10,911	10,359	9,922	8,789	8,215	7,994	7,205	5,963
7,376	7,216	7,002	6,668	6,522	6,453	6,240	6,107
1,193	1,162	1,117	1,006	1,006	999	962	904
—	—	—	—	—	—	—	—
22,786	21,942	21,170	19,391	18,597	18,248	17,078	15,513
800	800	800	800	800	800	800	800
3,676	3,493	3,493	3,493	3,493	3,310	3,310	2,933
—	—	—	—	—	—	—	—
4,476	4,293	4,293	4,293	4,293	4,110	4,110	3,733
2,051	1,589	1,423	1,444	1,791	1,385	1,420	1,479
25,584	25,510	26,342	24,839	23,813	23,181	21,256	18,062
(2,809)	(2,969)	(4,619)	(4,968)	(5,304)	(4,610)	(3,965)	(2,398)
—	—	—	—	—	—	—	—
24,826	24,130	23,146	21,315	20,300	19,956	18,711	17,143

# Corporate Information

## TransAlta Corporation Directors

### Lawrence I. Bell

- President and CEO, Shato Holdings Ltd.
- former CEO of British Columbia Hydro and Power
- Director, TransAlta Utilities since 1992

### Charles H. Hantho

- Chairman, President and CEO, Dominion Textile Inc.
- former Chairman and CEO of C-I-L
- Director, TransAlta Utilities since 1992

### Donna Soble Kaufman

- Partner, Stikeman, Elliott
- Director, TransAlta Utilities since 1989

### Walter J. McCarthy

- former Senior Vice-President, Sun Life Assurance Company of Canada
- Director, TransAlta Utilities since 1975

### Harry G. Schaefer, F.C.A.

- Chairman and Chief Financial Officer, TransAlta
- Director, TransAlta Utilities since 1985
- joined TransAlta Utilities in 1963

### Robert G. Black, Q.C.

- General Counsel, TransAlta Utilities
- Counsel, McCarthy Tétrault
- Director, TransAlta Utilities since 1972

### Richard F. Haskayne, F.C.A.

- Chairman, NOVA Corporation of Alberta
- former Chairman, President and CEO of Interhome Energy Inc.
- Director, TransAlta Utilities since 1991

### J. Wallace Madill

- President, J. Wallace Madill & Associates
- former CEO, Alberta Wheat Pool
- Director, TransAlta Utilities since 1978

### Ken F. McCready

- President and CEO, TransAlta
- Director, TransAlta Utilities since 1988
- joined TransAlta Utilities in 1963

### Ralph A. Thrall, Jr.

- President, McIntyre Ranching Co. Ltd.
- Director, TransAlta Utilities since 1981

### John T. Ferguson

- President and CEO, Princeton Developments Ltd.
- Director, TransAlta Utilities since 1981

### Lou D. Hyndman, Q.C.

- Senior Partner, Field & Field Perraton
- Director, TransAlta Utilities since 1986

### Gerald J. Maier, F.C.A.E.

- Chairman, President and CEO, TransCanada PipeLines Limited
- Director, TransAlta Utilities since 1983

### Ross F. Phillips, F.C.A.

- former Chairman and CEO, Home Oil Company Limited
- Director, TransAlta Utilities since 1975

### Marshall M. Williams

- former Chairman, President and CEO, TransAlta Utilities
- Director, TransAlta Utilities since 1972

## TransAlta Corporation Officers

**Ken F. McCready**  
President and Chief Executive Officer

**F.A. Richard McKinnon, F.C.A.**  
Vice-President, Finance

**William A. Veres**  
Treasurer

**Harry G. Schaefer, F.C.A.**  
Chairman and Chief Financial Officer

**Don W. Boone**  
Corporate Secretary

**Ken J. Wetherell**  
Assistant Corporate Secretary

## TransAlta Utilities Officers

**Ken F. McCready**  
President and Chief Executive Officer

**Jim Leslie**  
Senior Vice-President, Corporate Services

**Walter Saponja**  
Senior Vice-President, Operations

**Don G. Bacon**  
Vice-President, Export

**Wolfgang Janke**  
Vice-President, Customer Services

**F.A. Richard McKinnon, F.C.A.**  
Vice-President, Finance

**Murray A. Nelson**  
Vice-President, Transmission

**John A. Tapics**  
Vice-President, Generation

**Don W. Boone**  
Secretary

**Ken J. Wetherell**  
Assistant Secretary

**Harry G. Schaefer, F.C.A.**  
Chairman and Chief Financial Officer

**Walter Nieboer**  
Senior Vice-President, Non-Regulated Operations

**Robert G. Black, Q.C.**  
General Counsel

**Ron E. Bergen**  
Vice-President, Administration

**Sue Lee**  
Vice-President, Human Resources

**Alan C. Moon**  
Vice-President, Corporate Development

**Michael A. Pavey**  
Vice-President, Regulatory Services

**Robert C.P. Westbury**  
Vice-President, Environment and Public Affairs

**William A. Veres**  
Treasurer

## TransAlta Energy Officers

**Ken F. McCready**  
President and Chief Executive Officer

**Walter Nieboer**  
Senior Vice-President, Operations

**F.A. Richard McKinnon, F.C.A.**  
Vice-President, Finance

**Jim Simmons**  
Vice-President, Engineering

**William A. Veres**  
Treasurer

**Harry G. Schaefer, F.C.A.**  
Chairman and Chief Financial Officer

**Don W. Boone**  
Secretary

**Alan C. Moon**  
Vice-President, Corporate Development

**Rick A. Winsor**  
Vice-President, Energy Services

**Ken J. Wetherell**  
Assistant Secretary



## Corporate Information

TransAlta Utilities' Northern and Southern Alberta Advisory Boards provide a forum for effective communication between the company and business and community leaders.

Through the boards, TransAlta develops a better understanding of customer needs in order to continually improve its operations.

### Northern Alberta Advisory Board

**Muriel Abdurahman**

Former Mayor of Fort Saskatchewan  
Fort Saskatchewan, Alberta

**Ken Allred**

Chairman, Edmonton Metropolitan  
Regional Commission  
St. Albert, Alberta

**Bob Buker**

President, Norwood Foundry Limited  
Nisku, Alberta

**Ace Cetinski**

Chartered Accountant  
Sherwood Park, Alberta

**Dick Corser**

President, 494760 Alberta Ltd.  
Edson, Alberta

**Natalie Gibson**

Volunteer and Homemaker  
Drayton Valley, Alberta

**Ed Morin**

Enoch Band Elder  
Winterburn, Alberta

**Derek Pachal**

Teacher  
Alberta Vocational College  
Lac La Biche, Alberta

**Gordon Pasiuk**

Owner and President  
Jubilee Construction  
Camrose, Alberta

**Enid Schreiber**

Co-owner  
Larkspur Farms Ltd.  
Dapp, Alberta

**Jim Tindall**

Owner, B&T Ranches  
Sedgewick, Alberta

**Roger Vold**

Former Mayor of Wetaskiwin  
Wetaskiwin, Alberta

### Southern Alberta Advisory Board

**Michael Day**

City Commissioner  
Red Deer, Alberta

**Kathryn Habberfield**

Retired Farmer and Rancher  
Langdon, Alberta

**Glenn Logan**

Farmer  
Lomond, Alberta

**Ron Marra**

President, Marra's Grocery  
Canmore, Alberta

**Marilyn Sharp**

Farmer  
Lacombe, Alberta

**Dale Shippelt**

Town Councillor  
Rocky Mountain House, Alberta

**Bill Stephenson**

Vice-President,  
Novacor Chemicals Ltd.  
Red Deer, Alberta

**Wilson Sutherland**

Farmer  
High River, Alberta

**Lynne Thacker**

President, PANOIL  
Bow Island, Alberta

**Doug Thornton**

President, Thornton & Sons  
Furniture and Appliance Store  
Pincher Creek, Alberta

**Jim Webber**

General Manager  
Eastern Irrigation District  
Brooks, Alberta

**Helen Wentz**

Director, Social Services, Taber Region  
Taber, Alberta



**Head Office**

110 - 12th Avenue S.W.  
Calgary, Alberta

**Postal Address**

Box 1900  
Calgary, Alberta T2P 2M1

**Auditors**

Ernst & Young  
Chartered Accountants  
Calgary, Alberta

**Transfer Agents and Registrars – TransAlta Corporation****Common Shares:**

Montreal Trust Company  
Vancouver, Calgary, Edmonton, Regina, Winnipeg,  
Toronto, Montreal

**Dividend Reinvestment and Share Purchase Plan:**

Montreal Trust Company,  
Calgary

**Trustees and Registrars - TransAlta Utilities****First Mortgage Bonds:**

Montreal Trust Company  
Vancouver, Calgary, Toronto, Montreal

**Secured Debentures:**

The R-M Trust Company  
Vancouver, Calgary, Toronto, Montreal

**Transfer Agent and Registrar – TransAlta Utilities****First Preferred Shares:**

Montreal Trust Company  
Vancouver, Calgary, Edmonton, Regina, Winnipeg,  
Toronto, Montreal

**Common Share Information**

The corporation's common shares were split 3 for 1 on May 8, 1980, and 2 for 1 on February 1, 1988.

The valuation day value of common shares owned on December 31, 1971, adjusted for stock splits, is \$4.54 per share.

The adjusted cost base of common shares held on January 31, 1988, is reduced by \$0.75 per share subsequent to the February 1, 1988 split.

**Ticker Symbol:** TA for TransAlta Corporation common shares,  
TAU for TransAlta Utilities first preferred shares.

Listed on the Alberta, Montreal and Toronto stock exchanges.

**For More Information**

TransAlta offers additional financial information through its Financial Statistical Summary and Interim Reports to Shareholders. For copies, please contact:

Ken J. Wetherell  
Assistant Corporate Secretary  
TransAlta Corporation  
110 - 12th Avenue S.W., Box 1900  
Calgary, Alberta T2P 2M1

**Telephone:** 1-800-387-3598 toll free in Canada or  
(403)267-7301 in Calgary and outside Canada  
**Fax:** (403) 267-2575

**Environmental Policy Statements**

*TransAlta is committed to the environment and sustainable development. Protection of the environment is a vital element in our business. We strive to empower our employees to take initiatives to protect and enhance the environment, based on shared values and the need to satisfy the environmental concerns and expectations of customers, investors and the public. We are committed to:*

- *reporting complete and accurate information to stakeholders on the environmental impact of our business, meeting or surpassing all environmental standards, and continuously improving our environmental performance.*
- *advocating socially responsible environmental standards and the recognition of the economic value of environmental resources.*
- *implementing conservation and efficiency initiatives for all resources and pursuing alternative energy opportunities, both within our own operations and in partnership with others.*
- *seeking out research opportunities and developing alliances with stakeholders for environmental solutions.*
- *consulting and working with those who may be affected by our business to respond to their concerns.*
- *recognizing and respecting the relationship between the environment and health in all phases of our business, and using the best knowledge available to protect the health of employees and the public.*
- *encouraging and developing educational programs and resources to provide balanced public information and to foster environmentally sensitive attitudes, knowledge and skills.*
- *identifying and developing business ventures where value can be added to solutions to environmental problems and investment opportunities created for the corporation and its shareholders.*





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